

# Equity Release Holdings (No.5) Limited

Registered in England and Wales No. 5492179

## Annual Report and Financial Statements 2023



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## **Directors and officer**

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### **Directors**

D Wynne

I Kyriakopoulos

Wilmington Trust SP Services (London) Limited

### **Officer – Company Secretary**

Wilmington Trust SP Services (London) Limited

### **Independent Auditors**

PricewaterhouseCoopers LLP

7 More London Riverside

London

SE1 2RT

### **Registered office**

Wilmington Trust SP Services (London) Limited

Third Floor

1 King's Arms Yard

London

EC2R 7AF

### **Company number**

Registered in England and Wales no. 5492179

## Strategic report

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The directors present their strategic report for the Equity Release Holdings (No.5) Limited (the Company) and its subsidiary holdings (the Group) for the year ended 31 December 2023.

### Review of the Company's business

#### Principal activities

The Company is an investment holding company, which invests in a company established for the purpose of acquiring lifetime mortgage loans funded by the issue of loan notes and in a trustee company whose principal activity is to hold on trust the benefit of the portfolio of lifetime mortgages.

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 Group'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 Group at 31 December 2023 is shown in the statement of financial position on page 16, with the trading results shown in the consolidated income statement on page 15 and the consolidated statement of cash flows on page 19.

Income for the year is £26.1 million (2022: £40.2 million) and profit before tax is £3,000 (2022: £3,000).

Shareholders' equity has increased by £2,000 (2022: increase of £2,000), reflecting the profit for the year.

#### Section s.172(1) Statement

As an investment holding company the governance structure of the Company is such that the key policies have been predetermined at the time of issuance. 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: the Transaction Documents have been formulated 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 in accordance with relevant securitisation legislation.

The Company is only permitted to retain minimal profit.

The matters set out in subsections (b)–(f) have limited or no relevance to the Company and therefore they are not strategically important.

#### Future outlook

The directors consider that the Group's principal activities will continue unchanged for the foreseeable future.

#### Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Group and the Group's risk management policies are set out in note 19 to the financial statements.

Risk factors beyond the Group'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 Group due to fluctuations in the value of lifetime mortgage assets relative to the value of the property on which they are secured.
- 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 Group 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 19 to the financial statements.

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

**Strategic report (continued)****Key performance indicators**

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

Measure	2023 £'000	2022 £'000
Income for the year	<b>26,094</b>	40,161
Expense in the year	<b>(26,091)</b>	(40,158)
Profit after tax for the year	<b>2</b>	2
Movement in deferred consideration for the year	<b>(1,129)</b>	15,581

On behalf of the Board on 13 June 2024



Ioannis Kyriakopoulos  
Director

## Directors' report

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The directors submit their annual report and the audited consolidated financial statements for Equity Release Holdings (No.5) Limited (the Company) and its subsidiary holdings (the Group) for the year ended 31 December 2023.

### Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements are shown on page 3.

### Company Secretary

The Company Secretary is Wilmington Trust SP Services (London) Limited.

### Dividends

The directors do not recommend the payment of a dividend for the year (2022: *£nil*).

### Going concern

The Group'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 Group's borrowings (note 15); its capital structure (note 18); management of its risks including market, credit and liquidity risk (note 19) and derivative financial instruments (note 20).

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 Group are discussed in the strategic report on page 4.

### Financial instruments

The Group uses financial instruments to manage certain types of risks, including to those relating to credit, cash flow, liquidity, and interest rates. Details of the objectives and management of these instruments are contained in note 19 on risk management.

### Employees

The Group has no employees. The majority of employees engaged in the activities of the Group 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 Group 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, 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, as previously reported, 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 Aviva's Audit Committee, the selection of Ernst & Young LLP was approved by the Aviva Board. PricewaterhouseCoopers LLP will undertake the audit for the financial year ending 31 December 2023 and, subject to their appointment by Aviva's shareholders at the 2024 Annual General Meeting, Ernst & Young LLP will undertake the audit for the financial year ending 31 December 2024.

### Directors' indemnity provisions

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

### Corporate governance

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

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

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

## Directors' report (continued)

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 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 international accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

### 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 international accounting standards in conformity with the requirements of the Companies Act 2006, 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 11 to 37 were approved by the Board of Directors on 13 June 2024 and signed on its behalf by:



Ioannis Kyriakopoulos

Duly Authorised  
Wilmington Trust SP Services (London) Limited  
Secretary

## Independent auditors' report to the directors of Equity Release Holdings (No. 5) Limited

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### Report on the audit of the financial statements

#### Opinion

In our opinion, Equity Release Holdings (No.5) Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2023 and of the group's profit and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; 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 2023 (the "Annual Report"), which comprise: the Consolidated statement of financial position and the Company statement of financial position as at 31 December 2023; the Consolidated income statement, the Consolidated and company statement of changes in equity and the Consolidated and company statement of cash flows for the year then ended; the accounting policies; and the notes to the financial statements.

#### 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 group 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

#### Conclusions relating to going concern

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 group's and 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 group's and 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 Director's 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 2023 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 group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.



## Independent auditors' report to the directors of Equity Release Holdings (No. 5) Limited (continued)

### 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 group's and 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 group or the company to cease operations, or have no realistic alternative but to do so.

#### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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 group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. 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;
- Performing testing over the risk of management override of controls, including through testing journals entries posted by management, unusual account combinations and backdated journals;
- Assessing matters reported on the Aviva Group's whistleblowing helpline and fraud register and the results of management's investigation of such matters;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of testing; and
- Performing testing over accounting estimates, including equity release mortgages and associated borrowings, which involve judgemental assumptions that are susceptible to manipulation.

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.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### Use of this report

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

#### Other required reporting

##### Companies Act 2006 exception reporting

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

- we have not 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 company 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 directors of Equity Release Holdings (No. 5) Limited (continued)**

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Sean Forster (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

13 June 2024

## Accounting policies

The Company, a limited company, which is incorporated and domiciled in the United Kingdom (UK), is an investment holding company, which invests in a company established for the purpose of acquiring mortgage portfolios funded by the issue of loan notes and in a trustee company whose principal activity is to hold on trust the benefit of the portfolio of lifetime mortgages.

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 presentation currency.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group.

The Company has elected not to present a Company Income Statement in accordance with the exemption under section 408 of the Companies Act 2006.

### New standards, amendments to published standards and interpretations 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 2023. The amendments have been issued and endorsed by the UK and do not have a significant impact on the Company's financial statements.

- (i) *Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies*
- (ii) *Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates*
- (iii) *Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- (iv) *Amendments to IAS 12 Income Taxes: International Tax Reform – Pillar Two Model Rules*

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

The following amendments to existing standards have been issued, are not yet effective for the Company, and have not been adopted early by the Company. None of the amendments are expected to have a significant impact on the Company's financial statements.

- (i) *Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current*  
Published by the International Accounting Standards Board (IASB) in January 2020. The amendments are effective for annual reporting beginning on or after 1 January 2024 and have been endorsed by the UK.
- (ii) *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 been endorsed by the UK.
- (iii) *Amendments to IFRS 16 Leases: 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 been endorsed by the UK.
- (iv) *Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosures: Supplier Finance Arrangements*  
Published by the IASB in May 2023. The amendments are effective for annual reporting beginning on or after 1 January 2024 and have been endorsed by the UK.
- (v) *Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability*  
Published by the IASB in August 2023. The amendments are effective for annual reporting beginning on or after 1 January 2025 and have yet to be endorsed by the UK.
- (vi) *IFRS 18: Presentation and Disclosure of Financial Statements*  
Published by the IASB in April 2024. The amendments are effective for annual reporting beginning on or after 1 January 2027 and have yet to be endorsed by the UK.
- (vii) *IFRS 19: Subsidiaries without Public Accountability: Disclosures*  
Published by the IASB in May 2024. The amendments are effective for annual reporting beginning on or after 1 January 2027 and have yet to be endorsed by the UK.

**Accounting policies (continued)****(B) Critical accounting policies and use of estimates**

The preparation of the Group'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 Group. Major areas of estimation on policy application are summarised below:

- (i) Fair value of loan assets (set out in policy I and note 9)
- (ii) Fair value of borrowings (set out in policy N and note 15)
- (iii) Fair value of derivative financial instruments (set out in policy H and note 20)

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 I and note 9)
- (ii) Derivative financial instruments (set out in policy H and note 8)
- (iii) Deferred consideration (set out in policy L and note 14)
- (iv) Borrowings (set out in policy N and note 15)

The sensitivity of fair value of these items most significant unobservable inputs is disclosed in note 8.

**(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) Subsidiaries**

Subsidiaries are stated at fair value, which is based on net asset value. Net asset value is estimated using applicable valuation models (set out in policy C and note 7).

**(E) Interest and similar income**

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

**(F) Fee and commission expense**

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

**(G) Financial instruments**

The Group 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 8.

**(H) 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.

**Accounting policies (continued)**

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

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

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

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

**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.

**(I) 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 buyer. The Directors of the Group concluded that UKER transferred substantially all risks and rewards of the equity release mortgages at the point of sale and the Group 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 8. They are revalued at each period end, with movements in their fair values being taken to the income statement.

Certain loans include indemnified guarantees on losses that the Group may suffer due to negative equity shortfalls on the equity release mortgages.

**(J) Collateral**

The Group 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 G, 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.

**(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 Group'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 Group 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.

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to components of other comprehensive income and equity as appropriate.

## Accounting policies (continued)

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### **(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 8.

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.

### **(P) Receivables, payables and other financial liabilities**

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

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

**Consolidated income statement**

For the year ended 31 December 2023

	Notes	2023	2022
		£'000	£'000
<b>Income</b>			
Interest and similar income	E & 1	31,905	31,347
Unrealised losses on financial instruments	G & 1	(6,940)	8,812
Other operating income	L & 1	1,129	2
		<b>26,094</b>	40,161
<b>Expenses</b>			
Fee and commission expense	F & 2	(2,581)	(3,187)
Other operating expenses	2	(1,365)	(16,304)
Finance costs	2	(22,145)	(20,667)
		<b>(26,091)</b>	(40,158)
Profit before tax		3	3
Tax charge	M & 6	(1)	(1)
<b>Profit for the year</b>		<b>2</b>	<b>2</b>

The Group has no other comprehensive income.

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

**Consolidated statement of financial position**

As at 31 December 2023

	Notes	2023 £'000	2022 £'000
<b>Assets</b>			
Loans	G, I & 9	368,830	390,762
Derivative assets		1,719	196
Receivables	P & 10	611	314
Prepayments and accrued income		118	16
Cash and cash equivalents	K & 17(b)	42,606	37,629
<b>Total assets</b>		<b>413,884</b>	<b>428,917</b>
<b>Equity</b>			
Ordinary share capital	O & 11	—	—
Retained earnings	12	37	35
<b>Total equity</b>		<b>37</b>	<b>35</b>
<b>Liabilities</b>			
Deferred consideration	L & 14	40,026	41,155
Borrowings	N & 15	304,105	324,226
Payables and other financial liabilities	G, H, P & 16	69,715	63,500
Current Tax liabilities	M & 13	1	1
<b>Total liabilities</b>		<b>413,847</b>	<b>428,882</b>
<b>Total equity and liabilities</b>		<b>413,884</b>	<b>428,917</b>

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

The financial statements were approved by the Board of Directors on 13 June 2024 and signed on its behalf by:



Ioannis Kyriakopoulos  
Director



**Company statement of financial position**

As at 31 December 2023

	Notes	2023	2022
		£'000	£'000
<b>Assets</b>			
Investments in subsidiaries	D & 7	50	48
Receivables	P & 10	1	1
Cash at bank and in hand	K & 17	1	1
<b>Total assets</b>		<b>52</b>	<b>50</b>
<b>Equity</b>			
Ordinary share capital	O & 11	—	—
Retained earnings	12	37	35
<b>Total equity</b>		<b>37</b>	<b>35</b>
<b>Liabilities</b>			
Payables and other financial liabilities	P & 16	15	15
<b>Total liabilities</b>		<b>15</b>	<b>15</b>
<b>Total equity and liabilities</b>		<b>52</b>	<b>50</b>

Profit for the year for the Company is £2,000 (2022: £2,000).

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

The financial statements were approved by the Board of Directors on 13 June 2024 and signed on its behalf by:



Ioannis Kyriakopoulos  
Director

**Consolidated and company statement of changes in equity**

For the year ended 31 December 2023

	2023		
	Ordinary share capital	Retained earnings	Total equity
	£'000	£'000	£'000
<b>Balance at 1 January 2023</b>	—	35	35
Profit for the year	—	2	2
<b>Balance at 31 December 2023</b>	—	37	37
	2022		
	Ordinary share capital	Retained earnings	Total equity
	£'000	£'000	£'000
<b>Balance at 1 January 2022</b>	—	33	33
Profit for the year	—	2	2
<b>Balance at 31 December 2022</b>	—	35	35

Profit for the Group is £2,000 (2022: £2,000). Profit for the Company is £2,000 (2022: £2,000).

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

**Consolidated and company statement of cash flows**

For the year ended 31 December 2023

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

	Note	2023	2022
		£'000	£'000
<b>Cash flows from operating activities</b>			
Cash generated from operating activities	17	5,521	8,055
Tax paid		(1)	(1)
<b>Total net cash generated from operating activities</b>		<b>5,520</b>	<b>8,054</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		—	—
<b>Total net cash used in financing activities</b>		<b>—</b>	<b>—</b>
Total net increase in cash and cash equivalents		5,520	8,054
Cash and cash equivalents at 1 January		18,237	10,183
<b>Cash and cash equivalents at 31 December</b>	17 (b)	<b>23,757</b>	<b>18,237</b>

Cash flows for the Company are £nil for the year (2022: £nil).

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**

	2023	2022
	£'000	£'000
<i>The Group</i>		
<b>Interest and similar income</b>	<b>31,905</b>	31,347
<b>Financial instruments</b>		
Unrealised (losses) / gains on derivative contracts	(5,903)	84,090
Unrealised losses on mortgage loans	(8,831)	(96,358)
Unrealised gains on borrowings	7,794	21,080
	<b>(6,940)</b>	8,812
<b>Other operating income</b>		
Reinsurance rebates	—	2
Decrease in deferred consideration	1,129	—
	<b>1,129</b>	2
<b>Total income</b>	<b>26,094</b>	40,161

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 Group has no reliance on major customers as all mortgages are granted on individual personal property.

**2. Details of expenses**

	2023	2022
	£'000	£'000
<i>The Group</i>		
<b>Fee and commission expense</b>	<b>2,581</b>	3,187
<b>Net other operating expenses</b>		
Increase in deferred consideration	—	15,581
Losses due to negative equity	1,273	635
Audit fees	92	88
	<b>1,365</b>	16,304
<b>Finance Costs</b>		
Interest expense		
Securitised mortgage loan notes	16,993	6,832
Financial liabilities held at amortised cost	882	467
Subordinated Debt	2,366	1,132
Interest rate swap	1,025	11,569
Inflation rate swap	879	667
	<b>22,145</b>	20,667
<b>Total expenses</b>	<b>26,091</b>	40,158

**Notes to the financial statements (continued)****3. Employee information**

The Group has no employees (2022: 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 £13,301 (2022: £13,316) including VAT during the year to 31 December 2023, in respect of structuring and management services.

**5. Auditors' remuneration**

The total remuneration payable by the Group, excluding VAT, to its auditors, PricewaterhouseCoopers LLP is as follows:

	2023	2022
	£'000	£'000
Fees payable to PricewaterhouseCoopers LLP for the statutory audit of the Company and consolidated financial statements	4	4
Fees payable to PricewaterhouseCoopers LLP for the statutory audit of the financial statements of the Company's subsidiaries	88	84
	<b>92</b>	<b>88</b>

Fees paid to PricewaterhouseCoopers LLP and its associates for services other than the statutory audit of the Group are not disclosed in these financial statements since the consolidated financial statements of the Group's ultimate controlling entity, Aviva plc (see note 22), are required to disclose other (non-audit) services on a consolidated basis.

Audit fees are payable by Aviva Central Services UK Limited, a fellow Aviva 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:

	2023	2022
	£'000	£'000
<i>The Group</i>		
<b>Current tax</b>		
For this year	1	1
<b>Total tax charged to the income statement</b>	<b>1</b>	<b>1</b>

**(b) Tax reconciliation**

The tax on the Group's profit before tax is the same as (2022: the same as) the theoretical amount that would arise using the tax rate of the United Kingdom as follows:

	2023	2022
	£'000	£'000
<i>The Group</i>		
Profit before tax	3	3
Tax calculated at standard UK corporation tax rate of 19% (2022: 19%)	1	1
<b>Tax charged for the year</b>	<b>1</b>	<b>1</b>

**Notes to the financial statements (continued)**

From 1 April 2023, the main rate of corporation tax increased from 19% to 23%, and a new small profits rate was introduced for companies whose profits do not exceed £50,000. It is expected that the Group will be subject to tax on its taxable profits at the small profits rate following the changes, and there will be no impact on the Group or Company's net assets as a result of the amendments to the tax rates.

During 2023, legislation on The Organisation for Economic Co-operation and Development proposals to reform the international tax system and introduce a global minimum effective rate of corporation tax of 15% was enacted in the UK, to take effect from 31 December 2023. The Group has assessed its potential exposure, based on the available information, and does not anticipate any exposure to additional tax under these provisions.

**7. Investment in subsidiaries**

	2023	2022
	£'000	£'000
<i>The Company</i>		
Opening balance at 1 January	48	46
Fair value gains	2	2
<b>Balance at 31 December</b>	<b>50</b>	<b>48</b>

The Company's subsidiaries, which are wholly owned and incorporated in England, are shown below:

Company	Principal Activity
Equity Release Funding (No.5) Plc	Investment in lifetime mortgages
ERF Trustee (No.5) Limited	Trustee for a portfolio of lifetime mortgages

The registered office of all subsidiary undertakings is: c/o Wilmington Trust Services (London) Limited, Third Floor, 1 King's Arms Yard, London, EC2R 7AF.

The investments represent 2 fully paid ordinary shares and 49,998 partly paid at 25p ordinary shares in Equity Release Funding (No.5) Plc, and 2 fully paid ordinary shares in ERF Trustee (No.5) Limited. These shares are held at their fair value which approximates to the net asset value in the financial statements.

**8. 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 Group 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.

**Notes to the financial statements (continued)****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 Group considers that market participants would use in pricing the asset or liability. 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

**(c) Fair value hierarchy**

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

	2023		
	Level 2	Level 3	Total fair value
	£'000	£'000	£'000
<i>The Group</i>			
<b>Recurring fair value measurements</b>			
Loans	—	368,830	368,830
Derivative assets	—	1,719	1,719
<b>Total</b>	<b>—</b>	<b>370,549</b>	<b>370,549</b>
<b>Financial liabilities</b>			
Borrowings	—	(304,105)	(304,105)
Derivative liabilities	—	(50,252)	(50,252)
<b>Total</b>	<b>—</b>	<b>(354,357)</b>	<b>(354,357)</b>

	2022		
	Level 2	Level 3	Total fair value
	£'000	£'000	£'000
<i>The Group</i>			
<b>Recurring fair value measurements</b>			
Loans	—	390,762	390,762
Derivative assets	—	196	196
<b>Total</b>	<b>—</b>	<b>390,958</b>	<b>390,958</b>
<b>Financial liabilities</b>			
Borrowings	—	(324,226)	(324,226)
Derivative liabilities	—	(42,826)	(42,826)
<b>Total</b>	<b>—</b>	<b>(367,052)</b>	<b>(367,052)</b>

**(d) Transfers between levels of the fair value hierarchy**

There were no transfers during 2023 (2022: nil). For financial instruments that are recognised at fair value on a recurring basis, the Group 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.

**Notes to the financial statements (continued)****(e) Further information on Level 3 financial instruments**

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

	2023			2022		
	Loans	Derivative liabilities	Borrowings	Loans	Derivative liabilities	Borrowings
	£'000	£'000	£'000	£'000	£'000	£'000
<i>The Group</i>						
<b>Opening balance at 1 January</b>	<b>390,762</b>	<b>(42,630)</b>	<b>(324,226)</b>	493,897	(126,720)	(351,470)
Additions	30,399	—	(19,359)	31,073	—	(7,964)
(Redemptions) / repayments	(43,500)	—	31,686	(37,850)	—	14,128
Total net (losses) / gains recognised in the income statement	(8,831)	(5,903)	7,794	(96,358)	84,090	21,080
<b>Balance at 31 December</b>	<b>368,830</b>	<b>(48,533)</b>	<b>(304,105)</b>	390,762	(42,630)	(324,226)

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

The net result recognised in the income statement during the year for Level 3 assets and liabilities was a loss of £6.9 million (2022: profit of £8.8 million).

Lifetime mortgage loans amounting to £368.8 million (2022: £390.8 million), derivative liabilities of £48.5 million (2022: derivative liabilities of £42.6 million) and securitised mortgage loan notes amounting to £304.1 million (2022: £324.2 million) are classified as Level 3 and valued using a discounted cash flow model.

Cash flows are adjusted for credit risk and discounted using a yield curve and global assumptions for the liquidity premium. The model derives a best estimate view on property growth and explicitly calculates the additional return that would be demanded by investors due to uncertainties in the asset cash flows. The assets and liabilities have been classified as Level 3 as assumptions used to derive the property growth rates, mortality and morbidity assumptions, cost of capital, liquidity premium and credit risk are not deemed to be market observable. The 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 205bps at 31 December 2023 (2022: 155bps). 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% (2022: RPI + 0.75%), which includes an allowance of 0.5% per annum for the potential impact of climate change actions. The modelled growth rates include an adjustment for the 5-year period 2024-2028 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 3.0% pa at 31 December 2023 (2022: 3.1% pa) over a twenty year projection. After applying the cost of capital charge, dilapidations and the stochastic distribution, the effective net long-term growth rate equates to 0.9% pa (2022: 0.4% pa) over a twenty year projection.
- 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.



**Notes to the financial statements (continued)**

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:

	2023		Change in fair value	
	Fair value	Most significant unobservable inputs	Positive impact	Negative impact
	£m		£m	£m
<b>Loans</b>				
Lifetime mortgage loans	368.8	Credit spread - 50bps	11.4	(10.8)
		Current property market values - 10%	13.6	(16.8)
		Base property growth rate - 10%	6.3	(6.5)
Securitised mortgage loan notes	291.2	Credit spreads - 50bps	7.0	(7.3)
Subordinated debt	12.9	Credit spreads - 50bps	1.0	(1.1)
Derivatives	48.5	Inflation - 50bps	2.9	(2.8)
	2022		Change in fair value	
	Fair value	Most significant unobservable inputs	Positive impact	Negative impact
	£m		£m	£m
<b>Loans</b>				
Lifetime mortgage loans	390.8	Credit spread - 50bps	13.2	(12.5)
		Current property market values - 10%	12.2	(15.1)
		Base property growth rate - 10%	6.1	(6.3)
Securitised mortgage loan notes	313.4	Credit spreads - 50bps	11.1	(11.6)
Subordinated debt	10.8	Credit spreads - 50bps	1.1	(1.3)
Derivatives	42.6	Inflation - 50bps	2.6	(2.5)

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 bp movement in RPI on the derivative valuation.

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.

**Notes to the financial statements (continued)****9. 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	
	2023	2022
	£'000	£'000
<i>The Group</i>		
Lifetime mortgage loans	<b>368,830</b>	390,762
<i>The Group</i>		
Expected to be recovered in less than one year	<b>37,408</b>	33,754
Expected to be recovered in more than one year	<b>331,422</b>	357,008
	<b>368,830</b>	390,762

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 Group purchased £359.0m of mortgage assets at market value from Aviva Equity Release UK Limited (UKER). These assets are a portfolio of UK lifetime fixed rate and index linked residential mortgages, wholly secured on properties in the UK. In order to fund the purchase of these mortgage assets, the Group 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 Group.

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 loss of £1 million (2022: profit of £27.1 million). The cumulative change attributable to changes in credit risk to 31 December 2023 was a loss of £4.4 million (2022: loss of £3.4 million). The amount has been determined as the amount that is not attributable to changes in market conditions that give rise to market risk. Further details of the fair value methodology are given in note 8.

**(b) Collateral**

The Group 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 Group by way of a legal mortgage with full title guarantee.

**10. Receivables**

	2023	2022
	£'000	£'000
	<i>The Group</i>	
Amounts due from UKER	<b>611</b>	—
Amounts due from related parties	—	314
<b>Total as at 31 December</b>	<b>611</b>	314
Expected to be recovered in less than one year	<b>610</b>	313
Expected to be recovered in more than one year	<b>1</b>	1
	<b>611</b>	314

**Notes to the financial statements (continued)**

	2023	2022
	£'000	£'000
<i>The Company</i>		
Amounts due from subsidiaries	1	1
<b>Total at 31 December</b>	<b>1</b>	<b>1</b>
Expected to be recovered in less than one year	—	—
Expected to be recovered in more than one year	1	1
	<b>1</b>	<b>1</b>

**11. Ordinary share capital**

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

	2023	2022
	£	£
Allotted, called up and fully paid share capital of the Company		
2 (2022: 2) ordinary shares of £1 each	2	2
	<b>2</b>	<b>2</b>

Ordinary shares in issue in the Company rank pari passu. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

**12. Retained earnings**

	2023	2022
	£'000	£'000
<i>The Group and Company</i>		
<b>Balance at 1 January</b>	<b>35</b>	<b>33</b>
Profit for the year	2	2
<b>Balance at 31 December</b>	<b>37</b>	<b>35</b>

**13. Current tax liabilities**

The Group's current tax liability is £1,000 (2022: £1,000). The Group has no tax liabilities payable in more than one year (2022: *£nil*).

**14. Deferred consideration**

	2023	2022
	£'000	£'000
<i>The Group</i>		
<b>Balance at 1 January</b>	<b>41,155</b>	<b>25,574</b>
Movement in the year	(1,129)	15,581
<b>Balance at 31 December</b>	<b>40,026</b>	<b>41,155</b>

All of the above consideration (2022: *All*) is expected to be paid more than one year after the statement of financial position date.

The Group 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 8.

**Notes to the financial statements (continued)****15. Borrowings****(a) Carrying amount**

	2023	2022
	£'000	£'000
<i>The Group</i>		
Securitised mortgage loan notes	291,171	313,419
Subordinated debt	12,934	10,807
<b>Total at 31 December</b>	<b>304,105</b>	<b>324,226</b>
Expected to be settled in less than one year	31,462	25,214
Expected to be settled in more than one year	272,643	299,012
	<b>304,105</b>	<b>324,226</b>

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 gain of £0.1 million (2022: loss of £19.3 million). The cumulative change attributable to changes in credit risk to 31 December 2023 was a gain of £2.0 million (2022: gain of £1.8 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 8.

The Group 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 Group 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 2023 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:

loan notes	Capital balance outstanding	Credit rating	Interest rate to	Interest rate from	Interest rate from
	at end of year (£'000)		July 2012	July 2012	January 2022
	Total £292.6m	(S&P, Moody's, Fitch)			
Class A (£315.0 m)	226,600,000	A+, Aa2, AAA	LIBOR + 0.23%	LIBOR + 0.46%	SONIA + 0.5793%
Class B (£43.0 m)	43,000,000	A+, Aa3, A+	LIBOR + 0.35%	LIBOR + 0.70%	SONIA + 0.8193%
Class C (£23.0 m)	23,000,000	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
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The Group 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.

**Notes to the financial statements (continued)****(ii) Other borrowings**

On 11 August 2005, the Group 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 £18.1m (2022: £15.7m) of accumulated interest.

During 2005, the Group 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 Group with a committed cash facility for the years when mortgage redemptions are not expected to be sufficient to pay the expenses of the Group and interest on the mortgage loan notes. The gross amount outstanding as at 31 December 2023 was £nil (2022: £nil) and the committed credit facility was £nil (2022: £3.4m).

**16. Payables and other financial liabilities**

	Note	2023	2022
		£'000	£'000
<i>The Group</i>			
Derivative financial liabilities	8 and 20	50,252	42,826
Amounts due to UKER		—	—
Amounts due to other related parties		329	309
Obligations for repayment of cash collateral received		18,849	19,392
Other financial liabilities		285	973
<b>Total as at 31 December</b>		<b>69,715</b>	<b>63,500</b>

Of the above total £64.7m (2022: £59.9m) is expected to be paid more than one year after the statement of financial position date.

	2023	2022
	£'000	£'000
<i>The Company</i>		
Amounts due to subsidiaries	15	15
<b>Total at 31 December</b>	<b>15</b>	<b>15</b>

Of the above total £15,000 (2022: £15,000) is expected to be paid more than one year after the statement of financial position date.

**Notes to the financial statements (continued)****17. Consolidated statement of cash flows disclosures****(a) The reconciliation of Profit before tax to the net cash inflow from operating activities is:**

	2023	2022
	£'000	£'000
<i>The Group</i>		
<b>Profit before tax</b>	<b>3</b>	<b>3</b>
Adjustments for:		
<b>Fair value losses / (gains) on:</b>		
Mortgage loans	8,831	96,358
Borrowings	(7,794)	(21,080)
Derivatives	5,903	(84,090)
Interest expense	22,145	20,667
Interest receivable on mortgage loans	(30,399)	(31,073)
	(1,314)	(19,218)
<b>Changes in working capital:</b>		
Increase in receivables	(297)	(186)
Increase in prepayments and accrued income	(102)	(16)
(Decrease) / increase in deferred consideration	(1,129)	15,581
Decrease in payables and other financial liabilities	(1,211)	(6,951)
	(2,739)	8,428
Repayment of borrowings capital balance	(18,200)	(10,400)
Proceeds from redemption of mortgages	43,500	37,850
Movement in cash held as collateral	543	7,823
Interest paid	(16,272)	(16,431)
<b>Total cash generated from operating activities</b>	<b>5,521</b>	<b>8,055</b>

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

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

	2023	2022
	£'000	£'000
Cash at bank and in hand	42,606	37,629
Less: Cash held as collateral on derivative contracts	(18,849)	(19,392)
Cash and cash equivalent	<b>23,757</b>	<b>18,237</b>

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.

**18. Capital structure**

In managing its capital, the Group 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 Group is not subject to any externally imposed capital requirements. The Group manages shareholders' equity of £37,000 (2022: £35,000) as capital.

**Notes to the financial statements (continued)**

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**19. Risk management****(a) Risk management framework**

The ultimate controlling party, Aviva plc, and its subsidiaries, joint ventures and associates (collectively known as "the Aviva Group") 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 Aviva Group uses to identify, measure, manage, monitor and report ("IMMMR") risks, including the use of risk models and stress and scenario testing.

For the purposes of risk identification and measurement, and aligned to the Aviva Group's risk policies, risks are usually grouped by risk type: credit, market, liquidity, life insurance (including long-term health), and operational risk. Risks falling within these types may affect a number of metrics including those relating to statement of financial position strength, liquidity and profit. They may also affect the performance of the products the Group delivers to its customers and the service to its customers and distributors, which can be categorised as risks to brand and reputation or as conduct risk.

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

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

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

**(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 Group 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 Group 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 Group of changes in economic factors and assumptions would be reflected in a change in the value of deferred consideration rather than profit. Consequently, the Group 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 Group. Exposure to these risks is borne by the noteholders and other creditors of the Group.

**(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 Group 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 Group.

The Group has granted a deed of charge to its creditors such that, in event of default by the Group, 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.

**Notes to the financial statements (continued)**

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

The LTVs in the table below are as at 31 December 2023.

LTV	Under 75	75-79	80-84	85-89	90-94	95-99	100+	Total
£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Up to 40%	0.3	15.3	44.6	28.8	11.6	3.3	0.1	104.0
Up to 50%	1.0	9.7	46.9	43.1	11.9	2.3	0.3	115.2
Up to 60%	—	8.9	10.0	44.3	22.9	3.1	—	89.2
Up to 70%	—	0.1	7.3	12.8	14.5	2.8	0.2	37.7
Up to 80%	—	0.2	0.9	7.8	4.7	2.6	0.4	16.6
Up to 90%	—	—	0.6	1.1	1.8	0.6	—	4.1
Up to 100%	—	—	—	—	0.7	1.0	—	1.7
Over 100%	—	—	—	—	—	0.3	—	0.3
<b>Total</b>	<b>1.3</b>	<b>34.2</b>	<b>110.3</b>	<b>137.9</b>	<b>68.1</b>	<b>16.0</b>	<b>1.0</b>	<b>368.8</b>

The LTVs 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	£'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
<b>Total</b>	<b>1.4</b>	<b>52.0</b>	<b>137.0</b>	<b>136.7</b>	<b>52.6</b>	<b>10.8</b>	<b>0.3</b>	<b>390.8</b>

LTVs are published quarterly, (January, April, July and October) in the Investor Report. Investor Reports are available at [www.erefunding.co.uk](http://www.erefunding.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.

**(iii) Derivatives risk**

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

**(iv) Prepayment Risk**

Prepayment risk is the risk that the equity release mortgages will be repaid in a materially different profile to the expected profile at securitisation. This could lead to changes in the expected repayment rate of loan note interest and principal. In the event that equity release mortgages are repaid sooner, the repayment proceeds are distributed in accordance with the transaction documents.

**(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 Group 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 9(a) and 15(a).



**Notes to the financial statements (continued)****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.

	2023		
	Carry value in the statement of financial position	Collateral held	Net credit exposure
	£'000	£'000	£'000
<i>The Group</i>			
Loans	368,830	368,550	280

  

	2022		
	Carry value in the statement of financial position	Collateral held	Net credit exposure
	£'000	£'000	£'000
<i>The Group</i>			
Loans	390,762	390,588	174

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 Group makes use of both internal and external credit risk ratings, along with other qualitative and quantitative factors where external ratings are not available. Where a financial asset is deemed to have low credit risk, it is assumed that the credit risk on the respective assets has not increased significantly since initial recognition.

Where external credit ratings are available for financial assets, a significant increase in the credit risk of a financial asset is identified where there has been a significant deterioration in the respective credit rating. In all circumstances, where contractual payments are more than 30 days past due, there is deemed to be a significant increase in the credit risk of the related financial asset.

A financial asset is considered to be in default where contractual payments are past due, and there is objective evidence that the counterparty will be unable to subsequently meet their payment obligations. A financial asset is written off only when all other available measures have been taken to recover amounts due. During the year, none of the cash flows associated with any of the Group's financial assets have been modified or renegotiated.

**Calculation of expected credit losses**

Expected credit losses on material trade receivables and other assets held at amortised cost are calculated with reference to the Group'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 Group has not recognised a loss allowance at an amount equal to lifetime expected credit losses.

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

The Group 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 Group 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 Group's financial assets during the year.

**Derivative credit exposures**

The Group is exposed to counterparty credit risk through derivative trades, although the Group does not currently have an exposed net asset position with either of its external derivative counterparties. The Group 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.

**(d) Liquidity risk**

Liquidity risk is the risk that the Group 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 Group has a committed credit facility of £nil (2022: £3.4m).

**Notes to the financial statements (continued)**

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

	2023			
	Within 1 year	1-5 years	Over 5 years	No contractual maturity
	£'m	£'m	£'m	£'m
<i>The Group</i>				
<b>Liabilities</b>				
Borrowings	31.5	141.9	297.4	78.2
Deferred consideration	—	—	—	40.0
Derivative financial liabilities	4.5	27.9	28.4	—
Payables and other financial liabilities	0.6	—	—	—

	2022			
	Within 1 year	1-5 years	Over 5 years	No contractual maturity
	£'m	£'m	£'m	£'m
<i>The Group</i>				
<b>Liabilities</b>				
Borrowings	25.2	150.0	337.2	78.4
Deferred consideration	—	—	—	41.2
Derivative financial liabilities	2.4	16.4	37.5	—
Payables and other financial liabilities	1.3	—	—	—

The carrying value of the borrowings is £244.9 million lower (2022: £266.6 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.

**20. Derivative financial instruments**

During 2005, the Group entered into an interest rate swap agreement, the purpose of which is to protect the Group from interest rate risk in respect of the floating rate loan notes and credit facility. The notional amount outstanding as at 31 December 2023 was £397.1m (2022: £403.0m) and the swap had an expiry date of October 2032. Under the terms of the swap, up to January 2022, the Group received interest of three month LIBOR and paid interest of 5% of the notional amount quarterly. From January 2022, the Group has received interest of SONIA + 0.1193% and paid interest of 5% of the notional amount quarterly.

During 2005, the Group entered into a separate transaction that supplements its interest rate swap agreement and provides the Group 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.

During 2005, the Group entered into an inflation rate swap agreement, the purpose of which is to protect the Group from interest rate risk in respect of the index-linked mortgages. The notional amount outstanding as at 31 December 2023 was £17.6m (2022: £18.8m) and the swap had an expiry date of July 2045. Under the terms of the swap, the Group 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 Group holds £18.8m (2022: £19.4m) 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 16.

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 Group.

The Group has not adopted hedge accounting for its derivative instruments at 31 December 2023 and 2022.

**Notes to the financial statements (continued)**(i) *The Group's derivatives at 31 December 2023 and 2022 were as follows:*

	2023			2022		
	Contract notional amount	Fair value asset	Fair value liability	Contract notional amount	Fair value asset	Fair value liability
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Interest rate contracts</b>						
Interest rate swap	397,067	—	(30,248)	403,008	—	(22,265)
Option	—	1,719	—	—	196	—
<b>Inflation rate swap</b>	<b>17,612</b>	<b>—</b>	<b>(20,004)</b>	<b>18,751</b>	<b>—</b>	<b>(20,561)</b>
<b>Total as at 31 December</b>	<b>414,679</b>	<b>1,719</b>	<b>(50,252)</b>	<b>421,759</b>	<b>196</b>	<b>(42,826)</b>

**21. 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 Group 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 Group 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 Group'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 Group or its counterparty.

Derivative transactions requiring the Group 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 19(c).

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

Financial Assets	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Cash collateral	Net amounts
	£'000	£'000	£'000	£'000	£'000
<i>The Group</i>					
<b>Derivative assets</b>	<b>1,719</b>	<b>—</b>	<b>1,719</b>	<b>—</b>	<b>1,719</b>

Financial Liabilities	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Cash collateral	Net amounts
	£'000	£'000	£'000	£'000	£'000
<i>The Group</i>					
<b>Derivative liabilities</b>	<b>(50,252)</b>	<b>—</b>	<b>(50,252)</b>	<b>18,849</b>	<b>(31,403)</b>

Financial Assets	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Cash collateral	Net amounts
	£'000	£'000	£'000	£'000	£'000
<i>The Group</i>					
Derivative assets	196	—	196	—	196

**Notes to the financial statements (continued)**

	Effects of offsetting on the balance sheet			Related amounts not offset	
	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
<i>The Group</i>					
Derivative liabilities	(42,826)	—	(42,826)	19,392	(23,434)

**22. Related party transactions****(a) Loan notes due to related parties**

Included within the loan notes issued by the special purpose securitisation company, Equity Release Funding (No.5) plc, are £51.9 million (2022: £60.7 million) of loan notes which are held by related parties. Interest settled during the year in respect of these loan notes amounted to £2.4 million (2022: £0.7 million).

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

	2023 Expenses incurred in year £'000	2022 Expenses incurred in year £'000
<i>The Group</i>		
UKER – portfolio administration and cash handling fees	1,101	1,122
UKER – interest payable	2,366	1,132
UKER - deferred consideration	—	15,581
	<b>3,467</b>	<b>17,835</b>

**(c) Payable at year end**

	2023 £'000	2022 £'000
<i>The Group</i>		
UKER – deferred consideration	40,026	41,155
UKER – subordinated debt	12,934	10,807
UKER - other	329	309
	<b>53,289</b>	<b>52,271</b>
<i>The Company</i>		
Equity Release Funding (No.5)	15	15

**(d) Receivable at year end**

	2023 £'000	2022 £'000
<i>The Group</i>		
Other related parties	610	313

**(e) Key management compensation**

Wilmington Trust SP Services (London) Limited received fees of £13,301 (2022: £13,316) including VAT during the year to 31 December 2023, in respect of directors' remuneration.

There are no amounts receivable from or payments due to members of key management (2022: *Nil*).

Details of directors' emoluments are given in note 4.

## Notes to the financial statements (continued)

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### (f) Ultimate controlling entity

The immediate and ultimate parent undertaking is by Ocorian Trustees (Jersey) Limited, a company incorporated in Jersey. The registered office of Ocorian Trustees (Jersey) Limited is 26 New Street, St. Helier, Jersey, JE2 3RA.

However, under the principles of IFRS 10 Consolidated Financial Statements, the Company is deemed to be a subsidiary of Aviva plc, a company incorporated in England. The directors regard Aviva plc as the ultimate controlling party.

Aviva plc is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements at 31 December 2023. Its Group Financial Statements are available on application to the Group Company Secretary, Aviva plc, 80 Fenchurch Street, London EC3M 4AE, and on the Aviva plc website at [www.aviva.com](http://www.aviva.com).