# Equity Release Funding (No.2) Plc

## Registered in England and Wales No. 4414548

# Annual Report and Financial Statements 2025

## Contents

| | | Page |
|---|---|---|
| Directors and officer | | 3 |
| Strategic report | | 4 |
| Directors' report | | 6 |
| Independent auditor's report | | 8 |
| Accounting policies | | 13 |
| Income statement | | 16 |
| Statement of financial position | | 17 |
| Statement of changes in equity | | 18 |
| Statement of cash flows | | 19 |
| Notes to the financial statements | | 20 |
| 1. | Details of income | 20 |
| 2. | Details of expenses | 21 |
| 3. | Employee information | 21 |
| 4. | Directors' remuneration | 21 |
| 5. | Auditor's remuneration | 21 |
| 6. | Tax charge | 21 |
| 7. | Fair value methodology | 22 |
| 8. | Loans | 25 |
| 9. | Ordinary share capital | 25 |
| 10. | Retained earnings | 26 |
| 11. | Tax assets and liabilities | 26 |
| 12. | Deferred consideration | 26 |
| 13. | Borrowings | 26 |
| 14. | Payables and other financial liabilities | 27 |
| 15. | Statement of cash flows disclosures | 28 |
| 16. | Capital structure | 28 |
| 17. | Risk management | 28 |
| 18. | Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements | 31 |
| 19. | Related party transactions | 32 |

# Directors and officer

## Directors

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

## Officer – Company Secretary

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

## Independent Auditors

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

## Registered office

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

## Company number

Registered in England and Wales no. 4414548

## Other information

Equity Release Funding (No.2) Plc ("the Company") is a member of the Aviva plc group of companies ("the Group")

# Strategic report

The directors present their strategic report for the Company for the year ended 31 December 2025.

### Review of the Company's business

### Principal activities

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

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

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

### Significant events

There were no significant events in the year.

### Financial position and performance

The financial position of the Company at 31 December 2025 is shown in the statement of financial position on page 17, with the trading results shown in the income statement on page 16 and the statement of cash flows on page 19.

Income for the year is £6.7 million *(2024:* £9.3 *million)* and profit before tax is £1*,000 (2024: £2,000).*

Shareholders' equity has increased by £1,000 *(2024: increase of £1,000)*, reflecting the profit for the year.

### Section 172 (1) statement

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

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

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

### Future outlook

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

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

# Strategic report (continued)

### Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 17 to the financial statements.

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

- Market risk, the risk of loss or adverse change in the financial situation (including the value of assets, liabilities and income) resulting, directly or indirectly, from fluctuations in the level or the volatility of market variables, such as interest rates, equity prices and property prices. Market risk arises within the Company due to fluctuations in the value of lifetime mortgage assets relative to the value of the property on which they are secured.
- Credit risk, the risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements.
- Liquidity risk, the risk that cash flows from mortgages differ from expected cash flows, due to changes in mortality and prepayment rates, liabilities cannot be met in a timely and cost-effective manner as they fall due.
- Operational risk is the risk of loss arising from inadequate or failed internal processes, people or systems, or from external events.

The company uses a number of metrics to identify, measure, manage, monitor and report risks and a fuller explanation of these risks other than operational risk may be found in note 17 to the financial statements.

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

### Key performance indicators

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

| Measure | **2025** | 2024 |
|---|---|---|
| | **£'000** | £'000 |
| Income for the year | **6,749** | 9,331 |
| Expense in the year | **(6,748)** | (9,329) |
| Profit after tax for the year | **1** | 1 |
| Unrealised losses on deferred consideration in the year | **(5,717)** | (356) |

By order of the Board on 17 June 2026

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

# Directors' report

The directors submit their annual report and the audited financial statements for the Company for the year ended 31 December 2025.

### Company registration

The Company is registered in England and Wales, number 4414548.

### Directors

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

### Company Secretary

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

### Dividends

The directors do not recommend the payment of a dividend for the year *(2024: £nil).*

### Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report, which includes a section describing the principal risks and uncertainties. In addition, the financial statements include notes on: the Company's borrowings (note 13); its capital structure (note 16); management of its risks including market, credit and liquidity risk (note 17).

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

Management have performed an assessment of the Company's current and forecast liquidity position over a twelve month period. A worst-case scenario assessment, considering the entity's operating model and structure, is used to test the resilience of business. After making an assessment, 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 to 30 June 2027. For this reason, they continue to adopt, and to consider appropriate, the going concern basis in preparing the financial statements. At 31 December 2025, the Company has sufficient cash available to cover its current liabilities.

### Future outlook

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

### Financial instruments

The Company uses financial instruments to manage certain types of risks, including to those relating to credit, cash flow, liquidity, and interest rates. Details of the objectives and management of these instruments are contained in note 17 on risk management.

### Employees

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

### Disclosure of information to the auditors

In accordance with section 418 of the Companies Act 2006, the directors in office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's External Auditor, Ernst & Young 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 Ernst & Young LLP is aware of that information.

### Independent auditors

In accordance with section 487 of the Companies Act 2006, the Company's auditor, Ernst & Young LLP, will be deemed to have been re-appointed at the end of the period 28 days following circulation of copies of these financial statements as no notice has been received from members pursuant to section 488 of the Companies Act 2006 prior to the end of the accounting reference period to which these financial statements relate.

### Directors' indemnity provisions

At no time during the year did any director hold a material interest in any contract of significance with the company.

### Corporate governance

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

A Group Reporting Manual, including UK adopted international accounting standards (IFRS), has been defined and rolled out across the Group. A Financial Reporting Control Framework (FRCF) is in place across the Group. The 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.

## Directors' report (continued)

### 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 United Kingdom law and regulations.

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

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 in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company financial position and financial performance;
- in respect of the financial statements, state whether UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

### Directors' confirmations

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

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

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

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

The financial statements on pages 13 to 32 were approved on behalf of the Board on 17 June 2026

Ioannis Kyriakopoulos
Director

# Independent auditor's report to the members of Equity Release Funding (No. 2) plc

## Opinion

We have audited the financial statements of Equity Release Funding (No.2) Plc for the year ended 31 December 2025 which comprise the Income statement, the Statement of financial position, the Statement of changes in equity, the Statement of cash flows and the related notes 1 to 19, including material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2025 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

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

- Obtaining an understanding of management's going concern assessment process;
- Evaluating management's going concern assessment which includes an assessment of the company's long-term business strategy and consideration of the company's liquidity position, including facilities available;
- Evaluating the current and forecast liquidity of the company based on the projected cashflows, including performing an independent worst-case scenario that takes into consideration the entity's operating model and structure;
- Obtaining an understanding of and validating the assumptions used to produce cashflow forecasts in respect of mortgage redemptions and repayments of loan notes, and validating the priority of payments within these cash-flows to contractually agreed waterfall payments within the offer circular;
- Performing enquiries of management and those charged with governance to identify risks or events that may impact the Company's ability to continue as a going concern; and
- Review of going concern disclosures included in the financial statements for conformity with accounting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least 12 months from the date of approval of the financial statements to 30 June 2027.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

## Overview of our audit approach

| | |
|---|---|
| Key audit matters | • Valuation of lifetime mortgage loans asset<br>• Valuation of securitised mortgage loan note borrowings |
| Materiality | • Overall materiality of £2,100k which represents 1% of total assets |

## An overview of the scope of our audit

### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, the potential impact of climate change and changes in the business environment when assessing the level of work to be performed.

We have followed a risk-based approach when developing our audit approach to obtain sufficient appropriate audit evidence on which to base our audit opinion. We performed risk assessment procedures, to identify and assess risks of material misstatement to the financial statements and identified significant accounts and disclosures.

In addition, as the company uses Aviva Group's centralised information technology function, the audit work in this area has been performed by a centralised shared service EY team under the direction of the audit team.

## Independent auditor's report to the members of Equity Release Funding (No. 2) plc (continued)

### Involvement with centralised shared service teams

The audit team maintained oversight of the centralised shared service team through regular planned meetings that had been designed to ensure the Senior Statutory Auditor was satisfied that sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the Company financial statements as a whole. These meetings involved discussing the audit approach, audit findings and any issues arising with the centralised shared service team.

The audit team interacted regularly with the centralised shared service team where appropriate during various stages of the audit, reviewed relevant working papers and were responsible for the scope and direction of the audit process.

### Climate change

Stakeholders are interested in how climate change will impact Equity Release Funding (No.2) Plc. The company has determined that the most significant future impacts from climate change on its operations will be from fair value measurement of lifetime mortgage loans. These are explained in Note 7 to the audited financial statements.

In planning and performing our audit we assessed the potential impacts of climate change on the company's business and any consequential material impact on its financial statements.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks disclosed and whether these have been appropriately reflected in asset values. As part of this evaluation, we performed our own risk assessment to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

## Independent auditor's report to the members of Equity Release Funding (No. 2) plc (continued)

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Fraud risk: Valuation of lifetime mortgage loans asset (£201,554k, 2024: £220,257k)**<br><br>*Refer to sections (F) Financial instruments, and (G) Loans within the Accounting policies; and Note 7 and 8 of the Financial statements*<br><br>A key focus of our audit relates to management's selection and determination of key assumptions utilised to calculate the valuation of the lifetime mortgage loans assets which require significant management judgement, and are therefore subject to an increased risk of potential manipulation by management. The assumptions that we have determined to have the most significant impact are:<br>• Property assumptions utilised in the valuation of the no negative equity guarantee (NNEG), including property growth, index underperformance, property market volatility, and property values;<br>• Loan repayment assumptions, based on projected mortality; long term care (LTC); and<br>• The determination of the discount rate applied.<br><br>In addition to the above, the lifetime mortgage loans assets are valued using management's in-house model. The complexity of the model results in a heightened risk of error in calculation of the valuation of the lifetime mortgage loans assets. | To obtain sufficient audit evidence to conclude on the appropriateness of significant assumptions, using EY actuaries as part of our audit team, we performed the following procedures:<br>• Obtained an understanding and tested the design and implementation of key controls over management's valuation process for setting and updating significant assumptions;<br>• Assessed the appropriateness of management's judgements used to derive the key assumptions;<br>• Performed benchmarking of key demographic (mortality) and economic assumptions (property growth, mortality, property volatility, and index underperformance) against peers to confirm the relative strength of management's assumptions versus other industry participants, and assessed reasonableness of management utilised property prices against external market data;<br>• Assessed the results of management's experience analysis, specifically on mortality and index underperformance, to understand whether these justified the adopted assumptions;<br>• Tested the integrity and appropriateness of the valuation model, by comparing the output of EY's independent model to management's valuation for lifetime mortgage loans asset; and<br>• Assessed the reasonableness of the valuation approach adopted for the NNEG by comparing this to the approach adopted by other market participants. | We determined that the significant assumptions used by management, are reasonable based on the analysis of experience to date, industry practice and financial reporting requirements. Moreover, we are satisfied that the valuation of the lifetime mortgage loans is reasonable |
| **Significant Risk: Valuation of securitised mortgage loan notes borrowings (£91,791k, 2024: £114,181k)**<br><br>*Refer to sections; (M) Borrowings within the Accounting policies; and Note 7 and 13 of the Financial Statements*<br><br>Whilst the loan notes are listed, they are not actively traded and, as a result, there is no observable market value for these instruments. This results in a significant amount of judgement in estimating the fair value of the loan notes at the balance sheet date, and as a result, a higher likelihood of misstatement.<br><br>The securitised mortgage loan notes are valued using the same in house model as the lifetime mortgage asset.<br><br>Both the judgemental nature of the assumptions, which are consistent with those reflected in the lifetime mortgage loan valuations, and the complexity of the model increases the valuation risk of the loan notes. | To obtain sufficient audit evidence to conclude on the implementation of the complex valuation model, we performed the following procedures:<br>• Obtained an understanding and tested the design adequacy of key controls over management's valuation process;<br>• Engaged EY specialists to calculate a reasonable valuation range for the securitised mortgage loan notes, using EY's independent valuation model, reasonable alternative and independent model inputs in deriving the assumptions; and<br>• Performed completeness and accuracy procedures over the cashflows utilised in the valuation of the loan notes, including agreeing waterfall payments to bank statements, and validating the priority of payments to the offer circular. | Based on our procedures performed we are satisfied that the valuation of the securitised mortgage loan notes is reasonable |

### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the company to be £2,100k (2024: £1,739k), which is 1% (2024: 0.75%) of total assets. The Company is a special purpose vehicle which forms part of a securitisation structure, established primarily as a means of raising wholesale funding for Aviva plc ("Aviva") the ultimate controlling party. Aviva Equity Release UK Limited ("UKER") manages the securitisation transaction in its role as originator, administrator and servicer of the underlying mortgage loans and cash manager (the "Servicer"). As the principal strategy and objective for the Company is investment in lifetime mortgage loans, we believe that total assets provides us with an appropriate materiality basis.

During the course of our audit, we reassessed our initial materiality of £2,000k, which was based on 1% of total assets as at 31 December 2024 with a 10% haircut applied to reflect that the business is in runoff. We increased our materiality to £2,100k to reflect the final total assets as at 31 December 2025. We considered the impact of the increase in materiality on the extent of our audit procedures.

## Independent auditor's report to the members of Equity Release Funding (No. 2) plc (continued)

### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 75% (2024: 50%) of our planning materiality, namely £1,575k (2024: £870k). We have increased the percentage of performance materiality because the outcome of the first year audit and our experience indicates there is a lower risk of material misstatement both corrected and uncorrected.

### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with those charged with governance that we would report to them all uncorrected audit differences in excess of £105k (2024: £87k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### Auditor's 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 auditor's 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.

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

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

## Independent auditor's report to the members of Equity Release Funding (No. 2) plc (continued)

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant relevant laws and regulations related to elements of company law and tax legislation, the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included the UK Listing Rules, managed by the Financial Conduct Authority (FCA).
- We understood how the company is complying with those frameworks by making enquiries of management and those responsible for legal and compliance matters. We also reviewed minutes of the Board; and gained an understanding of the company's governance.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the controls that the company has established to address risks identified by the company, or that otherwise seek to prevent, deter or detect fraud. We also assessed the risks of fraud in our key audit matters. Our procedures over our key audit matters and other significant accounting estimates included challenging management on the assumptions and judgements made in determining these estimates.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of those charged with governance and senior management for (a) their awareness of any non-compliance of laws or regulations (b) policies that have been established to prevent non-compliance with laws and regulations and (c) the company's methods of enforcing and monitoring compliance with such policies.
- To address the pervasive risk as it relates to management override, we also performed procedures including identifying journal entries based on risk criteria and comparing the identified entries to supporting documentation and assessing significant accounting estimates for bias.
- The Company operates in the equity release industry. As such, the Senior Statutory Auditor considered the experience and expertise of the audit engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

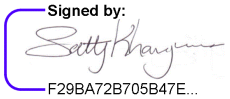
**Other matters we are required to address**

- Following the recommendation from the Aviva Group audit committee we were appointed by the company on 10 December 2024 to audit the financial statements for the year ending 31 December 2024 and subsequent financial periods.

  The period of total uninterrupted engagement including previous renewals and reappointments is 2 years, covering the years 2024 and 2025.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

**Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signed by:

F29BA72B705B47E...

*Satty Khangura (Senior statutory auditor)*
*for and on behalf of Ernst & Young LLP, Statutory Auditor*
*London*
*17 June 2026*

# Accounting policies

The Company, a public limited company incorporated and domiciled in the United Kingdom (UK), invests in lifetime mortgage loans.
The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

## (A) Basis of preparation

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

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

Having assessed the principal risks, 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 (at least to 30 June 2027). For this reason, the Company continues to adopt the going concern basis in preparing the financial statements.

The financial statements are stated in sterling, which is the Company's functional and presentational currency. Unless otherwise noted, the amounts shown in these financial statements are in thousands of pounds sterling ("£000").

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

The Company has adopted Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability which became effective for the annual reporting period beginning on 1 January 2025. The amendments do not have a significant impact on the Company's financial statements.

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

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

*(i) IFRS 18: Presentation and Disclosure in Financial Statements*
In April 2024, the IASB published IFRS 18, which aims to improve how companies communicate in their financial statements by:

- Requiring additional defined subtotals in the statement of profit or loss;
- Requiring disclosures about management-defined performance measures; and
- Adding new principles for grouping of information.

IFRS 18 is effective for annual reporting beginning on or after 1 January 2027 and has been endorsed by the UK. The standard is expected to result in presentational changes to the Company's income statement, and new disclosures of management-defined performance measures will be required in the notes to the financial statements. The Company is in the process of implementation, and no financial impacts are expected as a result of adoption.

The following new standards and amendments to existing standards have been issued, are not yet effective and have not been adopted early for the Company and are not expected to have a significant impact on the Company's financial statements:

*(i) Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures: Amendments to the Classification and Measurement of Financial Instruments*
Published by the IASB in May 2024. The amendments are effective for annual reporting beginning on or after 1 January 2026 and have been endorsed by the UK.

*(ii) Annual improvements to IFRS Accounting Standards – Volume 11: Amendments to IFRS 1, IFRS 7, IFRS 9, IFRS 10 and IAS 7*
Published by the IASB in July 2024. The amendments are effective for annual reporting beginning on or after 1 January 2026 and have been endorsed by the UK.

*(iii) Amendments to IFRS 9 and IFRS 7 – Contracts Referencing Nature-dependent Electricity*
Published by the IASB in December 2024. The amendments are effective for annual reporting beginning on or after 1 January 2026 and have been endorsed by the UK.

*(iv) Amendments to IAS 21: Translation to a Hyperinflationary Presentation Currency*
Published by the IASB in November 2025. The amendments are effective for annual reporting beginning on or after 1 January 2027 and have yet to be endorsed by the UK.

*(v) IFRS 19: Subsidiaries without Public Accountability: Disclosures and Amendments to IFRS 19: Subsidiaries without Public Accountability: Disclosures*
Published by the IASB in May 2024 and August 2025. IFRS 19 and the amendments to IFRS 19 cannot be applied by the Company because they are only applicable to subsidiaries that have no public accountability. The standard and the amendments are effective for annual reporting beginning on or after 1 January 2027 and has been endorsed by the UK.

*(vi) IFRS 20: Regulatory Assets and Regulatory Liabilities*
Published by the IASB in May 2026. The standard is effective for annual reporting beginning on or after 1 January 2029 and has yet to be endorsed by the UK.

## (B) Critical accounting policies and use of estimates

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the Income statement, Statement of financial position, other primary statements and Notes to the financial statements. The areas of key judgement are the valuation and recognition of the lifetime mortgages in the books of the Company. Major areas of estimation on policy application are summarised below:

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

(ii) Fair value of borrowings (set out in policy M and note 7).

(iii) Fair value of deferred consideration (set out in policy K and note 7).

## Accounting policies (continued)

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 G and note 8).

(ii) Deferred consideration (set out in policy K and note 12).

(iii) Borrowings (set out in policy M and note 13).

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

The Company has considered the impact of climate risk on the carrying value of assets and liabilities and considers that there is no significant risk of a material adjustment within the next financial year resulting from climate risk. The impact of climate risk on the valuation of financial instruments is described in Note 7.

### (C) Fair value measurement

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

The fair value of a non-financial asset is determined based on its highest and best use from a market participant's perspective. When using this approach, the Company takes into account the asset's use that is physically possible, legally permissible and financially feasible.

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 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 recognised as a gain or loss in the income statement. When unobservable market data has a significant impact on the valuation of financial instruments, 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. If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure fair value.

### (D) Interest and similar income

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

### (E) Fee and commission expense

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

### (F) Financial instruments

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

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

### (G) Loans

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

Lifetime mortgages are classified as mandatorily held at FVTPL in accordance with the requirements of IFRS 9. The fair values are estimated using discounted cash flow models, as described in note 7. They are revalued at each period end, with movements in their fair values being taken to the income statement.

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

### (H) Collateral

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

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

## Accounting policies (continued)

### (I) Receivables, payables and other financial liabilities

Receivables, Payables 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.

### (J) Statement of cash flows

*Cash and cash equivalents*

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

### (K) Deferred consideration

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

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

For any excess of liabilities over assets (excluding deferred consideration) the borrowings are reduced by a value equal to the excess, reflecting their non-recourse nature.

Deferred consideration is 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.

### (L) Income taxes

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

The Company is subject to tax in accordance with the securitisation regime.

### (M) Borrowings

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

All borrowing costs are expensed as they are incurred.

For any excess of liabilities over assets (excluding deferred consideration) the borrowings are reduced by a value equal to the excess, reflecting their non-recourse nature.

### (N) Share capital

*Equity instruments*

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

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

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

### (O) Fee and commission income

Fee and commission income consists primarily of administration fees and early redemption fees. These fees are recognised as revenue in the period in which they are earned.

### (P) Other operating income

Other operating income consists of reinsurance rebates which are recognised in the period in which they are earned.

# Income statement

For the year ended 31 December 2025

| | Notes | 2025 £'000 | 2024 £'000 |
|---|---|---|---|
| **Income** | | | |
| Interest and similar income | D & 1 | **15,043** | 16,756 |
| Unrealised losses on financial assets | F & 1 | **(2,056)** | (8,652) |
| Unrealised (losses) / gains on financial liabilities | F, K & 1 | **(6,576)** | 1,069 |
| Fee and commission income | O & 1 | **56** | 58 |
| Other operating income | P & 1 | **282** | 100 |
| | | **6,749** | 9,331 |
| **Expenses** | | | |
| Fee and commission expense | E & 2 | **(638)** | (641) |
| Other operating expenses | 2 | **357** | (547) |
| Finance costs | 2 | **(6,467)** | (8,141) |
| | | **(6,748)** | (9,329) |
| Profit before tax | | **1** | 2 |
| Tax charge | L & 6 | **—** | (1) |
| **Profit for the year** | | **1** | 1 |

There is no other comprehensive income for the year (*2024: £Nil*).

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

## Statement of financial position

As at 31 December 2025

| | Notes | 2025 £'000 | 2024 £'000 |
|---|---|---|---|
| **Assets** | | | |
| Loans | F, G & 8 | **201,554** | 220,257 |
| Prepayments and accrued income | | **28** | 27 |
| Cash and cash equivalents | J & 15 | **14,177** | 11,655 |
| **Total assets** | | **215,759** | 231,939 |
| **Equity** | | | |
| Ordinary share capital | N & 9 | **13** | 13 |
| Retained earnings | 10 | **36** | 35 |
| **Total equity** | | **49** | 48 |
| **Liabilities** | | | |
| Deferred consideration | K & 12 | **121,701** | 115,984 |
| Borrowings | M & 13 | **91,791** | 114,181 |
| Payables and other financial liabilities | F, I & 14 | **2,218** | 1,725 |
| Current tax liabilities | L & 11 | **—** | 1 |
| **Total liabilities** | | **215,710** | 231,891 |
| **Total equity and liabilities** | | **215,759** | 231,939 |

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 17 June 2026 and signed on its behalf by:

Ioannis Kyriakopoulos

Director

## Statement of changes in equity

For the year ended 31 December 2025

| | Notes | Ordinary share capital | Retained earnings | Total equity |
|---|---|---|---|---|
| | | £'000 | £'000 | £'000 |
| **Balance at 1 January 2025** | | **13** | **35** | **48** |
| Profit for the year | 10 | **—** | **1** | **1** |
| **Balance at 31 December 2025** | | **13** | **36** | **49** |

| | Notes | Ordinary share capital | Retained earnings | Total equity |
|---|---|---|---|---|
| | | £'000 | £'000 | £'000 |
| **Balance at 1 January 2024** | | 13 | 34 | 47 |
| Profit for the year | 10 | — | 1 | 1 |
| **Balance at 31 December 2024** | | 13 | 35 | 48 |

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

## Statement of cash flows

For the year ended 31 December 2025

| | Note | 2025 | 2024 |
|---|---|---|---|
| | | £'000 | £'000 |
| **Cash flows from operating activities** | | | |
| Cash generated from / (used in) operating activities | 15 | **2,523** | (1,009) |
| Tax paid | | **(1)** | (1) |
| **Total net cash generated from / (used in) operating activities** | | **2,522** | (1,010) |
| | | | |
| Total net increase / (decrease) in cash and cash equivalents | | **2,522** | (1,010) |
| Cash and cash equivalents at 1 January | | **11,655** | 12,665 |
| **Cash and cash equivalents at 31 December** | 15 | **14,177** | 11,655 |

Interest paid is disclosed in note 15.

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

| | 2025 | 2024 |
|---|---|---|
| | £'000 | £'000 |
| **Interest and similar income** | | |
| Interest on balances held at amortised cost | **481** | 504 |
| Interest on balances held at FVTPL | **14,562** | 16,252 |
| | **15,043** | 16,756 |
| **Financial assets** | | |
| Unrealised losses on mortgage loans | **(2,056)** | (8,652) |
| **Financial liabilities** | | |
| Unrealised (losses) / gains on borrowings | **(859)** | 1,425 |
| Unrealised losses on deferred consideration | **(5,717)** | (356) |
| | **(6,576)** | 1,069 |
| **Fee and commission income** | **56** | 58 |
| **Other operating income** | | |
| Reinsurance rebates | **282** | 100 |
| | **282** | 100 |
| **Total income** | **6,749** | **9,331** |

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

# Notes to the financial statements (continued)

## 2. Details of expenses

| | 2025 £'000 | 2024 £'000 |
|---|---|---|
| **Fee and commission expense** | **638** | 641 |
| **Other operating expenses** | | |
| Losses due to negative equity | **(444)** | 461 |
| Audit fees | **87** | 85 |
| Other expenses | **—** | 1 |
| | **(357)** | 547 |
| **Finance Costs** | | |
| Interest expense | | |
| Securitised mortgage loan notes | **6,000** | 7,497 |
| Liquidity facility | **467** | 644 |
| | **6,467** | 8,141 |
| **Total expenses** | **6,748** | 9,329 |

## 3. Employee information

The Company has no employees (*2024: 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 £14,554 (*2024: £14,553*) including VAT during the year to 31 December 2025, in respect of structuring and management services. The other named Directors are employed by Wilmington Trust SP Services (London) Limited; no fees were paid to them directly.

## 5. Auditor's remuneration

The total remuneration payable by the Company to its auditors, Ernst & Young LLP, is as follows:

| | 2025 £'000 | 2024 £'000 |
|---|---|---|
| Fees payable for the statutory audit of the Company's financial statements | **87** | 85 |

No non-audit services were provided during the year by Ernst & Young LLP.

## 6. Tax charge

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

The total tax charge comprises:

| | 2025 £'000 | 2024 £'000 |
|---|---|---|
| **Current tax** | | |
| For this year | **—** | 1 |
| **Total tax charged to the income statement** | **—** | 1 |

## Notes to the financial statements (continued)

### (b) Tax reconciliation

The tax on the Company's profit before tax is the same as *(2024: differs from)* the theoretical amount that would arise using the tax rate of the United Kingdom as follows:

| | 2025 £'000 | 2024 £'000 |
|---|---|---|
| Profit before tax | **1** | 2 |
| Tax calculated at standard UK corporation tax rate of 19% (2024: 19%) | **—** | — |
| Disallowable expenses | **—** | 1 |
| **Total tax charged to the income statement** | **—** | 1 |

The Company (as part of the Aviva Group) is subject to the reform of the international tax system proposed by The Organisation for Economic Co-operation and Development (OECD) which introduces a global minimum effective rate of corporation tax of 15% and took effect in 2024. No current tax charge is included in respect of these provisions.

In accordance with the amendments to IAS 12, endorsed in the UK on 19 July 2023, the Company has applied the exemption and not provided for deferred tax in respect of the global minimum tax reforms.

## 7. Fair value methodology

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

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

**Level 1**

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities that the Company can access at the measurement date. Level 1 inputs implicitly reflect market view of climate risks to future cashflows.

**Level 2**

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

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

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

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

**Level 3**

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

### (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

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

## Notes to the financial statements (continued)

### (c) Fair value hierarchy

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

| | 2025 Level 3 £'000 | 2025 Total fair value £'000 |
|---|---|---|
| **Financial assets** | | |
| Loans | **201,554** | **201,554** |
| **Financial liabilities** | | |
| Borrowings | **(91,791)** | **(91,791)** |
| Deferred consideration | **(121,701)** | **(121,701)** |
| **Total** | **(11,938)** | **(11,938)** |

| | 2024 Level 3 £'000 | 2024 Total fair value £'000 |
|---|---|---|
| **Financial assets** | | |
| Loans | 220,257 | 220,257 |
| **Financial liabilities** | | |
| Borrowings | (114,181) | (114,181) |
| Deferred consideration | (115,984) | (115,984) |
| **Total** | (9,908) | (9,908) |

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

There were no transfers during 2025 (*2024: £nil*). For financial instruments that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting year.

### (e) Further information on Level 3 financial instruments

Lifetime mortgage loans amounting to £201.6 million (*2024: £220.3 million*), deferred consideration of £121.7m *(2024: £116.0 million)* and securitised mortgage loan notes amounting to £91.8 million *(2024: £114.2 million)* are classified as Level 3 and valued using an internal stochastic model.

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

| | 2025 Loans £'000 | 2025 Deferred consideration £'000 | 2025 Borrowings £'000 | 2024 Loans £'000 | 2024 Deferred consideration £'000 | 2024 Borrowings £'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 January** | **220,257** | **(115,984)** | **(114,181)** | 247,579 | (115,628) | (142,374) |
| Accrued interest | **14,562** | **—** | **(6,000)** | 16,252 | — | (7,497) |
| (Redemptions) / repayments | **(31,210)** | **—** | **29,249** | (34,922) | — | 34,265 |
| Total net (losses) / gains recognised in the income statement | **(2,056)** | **(5,717)** | **(859)** | (8,652) | (356) | 1,425 |
| **Balance at 31 December** | **201,554** | **(121,701)** | **(91,791)** | 220,257 | (115,984) | (114,181) |

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

The net result recognised in the income statement during the year for Level 3 assets and liabilities was a loss of £8.6 million *(2024: loss of £7.6 million)*.

The fair value of deferred consideration represents management's best estimate of the surplus payable to UKER on the maturity of the fund and is impacted by model inputs into the fair value models of the lifetime mortgage loans and the securitised mortgage loan notes. Cash flows used in the internal stochastic model are adjusted for credit risk and discounted using a yield curve and portfolio-wide assumptions for the liquidity premium. The model derives a best estimate view on property growth and explicitly calculates the additional return that would be demanded by investors due to uncertainties in the asset cash

## Notes to the financial statements (continued)

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 lifetime mortgage portfolio. The liquidity premium used in the discount rate was 195bps at 31 December 2025 *(2024: 185bps)*. 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% *(2024: RPI + 0.75%)* which includes a deduction for the potential impact of climate risks on future house prices. This equates to a long-term average growth rate of 3.8% per annum at 31 December 2025 *(2024: 3.7%)* 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 1.4% pa *(2024 : 1.4% pa)* over a twenty year projection. The modelled growth rates for 2024 included an adjustment to reflect the market view of short-term growth being different to long-term growth. This adjustment has been removed for 2025 in light of the reduced materiality of the adjustment and recognition that the cyclical nature of residential property prices means that small short-term market fluctuations are less relevant to long-term growth assumptions.
- 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. Certain loans include indemnified guarantees on losses that the Company may suffer due to negative equity shortfalls, provided by UKER. The fair value of indemnified guarantees is derived consistent to the lifetime mortgage loans and therefore included in the gross amount of lifetime mortgage loans. Property valuations at the reporting date are obtained by taking the most recent valuation for the property and indexing using a historical house price model based on Land Registry and ONS data.

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

| | **2025** | | **Change in fair value** | |
|---|---|---|---|---|
| | **Fair value** | **Most significant unobservable inputs** | **Positive impact** | **Negative impact** |
| | **£m** | | **£m** | **£m** |
| Lifetime mortgage loans | **201.6** | Illiquidity premium - 50bps | **4.9** | **(4.7)** |
| | | Current property market values - 10% | **0.1** | **(0.1)** |
| | | Base property growth rate - 50bps | **—** | **—** |
| Securitised mortgage loan notes | **91.8** | Illiquidity premium - 50bps | **1.0** | **(1.0)** |

| | 2024 | | Change in fair value | |
|---|---|---|---|---|
| | Fair value | Most significant unobservable inputs | Positive impact | Negative impact |
| | £m | | £m | £m |
| Lifetime mortgage loans | 220.3 | Illiquidity premium - 50bps | 5.8 | (5.5) |
| | | Current property market values - 10% | 0.2 | (0.2) |
| | | Base property growth rate - 50bps | — | — |
| Securitised mortgage loan notes | 114.2 | Illiquidity premium - 50bps | 1.4 | (1.5) |

Separate sensitivities are not presented for deferred consideration, which is impacted by same inputs that affect lifetime mortgage loans and securitised mortgage loan notes. An increase in credit spreads used in the discounted cash flow model for lifetime mortgage loans will decrease the fair value of the assets and increase deferred consideration. 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 and decrease deferred consideration. The illiquidity premium movement is effectively a movement in the credit spread on the assets.

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)

### 8. Loans

#### (a) Carrying amounts

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

| | At fair value through profit or loss other than trading | |
|---|---|---|
| | **2025** | 2024 |
| | **£'000** | £'000 |
| Lifetime mortgage loans (gross of indemnified guarantees) | **192,542** | 208,746 |
| Fair value of indemnified guarantees | **9,012** | 11,511 |
| Lifetime mortgage loans | **201,554** | 220,257 |
| Expected to be recovered in less than one year | **23,882** | 21,908 |
| Expected to be recovered in more than one year | **177,672** | 198,349 |
| | **201,554** | 220,257 |

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 June 2002, the Company purchased £276.0 million of mortgage assets at market value from UKER. These assets are a portfolio of UK lifetime fixed rate residential mortgages, wholly secured on properties in the UK. In order to fund the purchase of these mortgage assets, the Company issued a series of mortgage backed loan notes. Under the terms of this arrangement, the rights of the providers of the finance for this transaction are limited to the mortgage assets purchased and any related income generated by the portfolio, and are without recourse to UKER. UKER is not obliged to support any losses which may arise in respect of these 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.

#### (b) Collateral

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

### 9. Ordinary share capital

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

| | **2025** | 2024 |
|---|---|---|
| | **£** | £ |
| Allotted, called up and fully paid | | |
| 2 (2024: 2) ordinary shares of £1 each | **2** | 2 |
| Allotted, called up and partly paid | | |
| 49,998 (2024: 49,998) ordinary shares of £1 (2024: £1) each (25p (2024: 25p) paid per share) | **12,500** | 12,500 |
| | **12,502** | 12,502 |

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.

# Notes to the financial statements (continued)

## 10. Retained earnings

| | 2025 £'000 | 2024 £'000 |
|---|---|---|
| **Balance at 1 January** | **35** | 34 |
| Profit for the year | **1** | 1 |
| **Balance at 31 December** | **36** | 35 |

## 11. Tax assets and liabilities

The current tax liability of £nil *(2024: £1,000)* is payable within one year.

## 12. Deferred consideration

| | 2025 £'000 | 2024 £'000 |
|---|---|---|
| **Balance at 1 January** | **115,984** | 115,628 |
| Movement in the year | **5,717** | 356 |
| **Balance at 31 December** | **121,701** | 115,984 |
| Expected to be settled in less than one year | **—** | **—** |
| Expected to be settled in more than one year | **121,701** | 115,984 |
| | **121,701** | 115,984 |

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

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

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

## 13. Borrowings

### (a) Carrying amount

| | 2025 £'000 | 2024 £'000 |
|---|---|---|
| Securitised mortgage loan notes | **91,791** | 114,181 |
| **Total at 31 December** | **91,791** | 114,181 |
| Expected to be settled in less than one year | **25,867** | 29,251 |
| Expected to be settled in more than one year | **65,924** | 84,930 |
| | **91,791** | 114,181 |

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

The change in fair value of mortgage loan notes during the year attributable to a change in credit risk was a loss of £0.2 million *(2024: loss of £2.0 million)*. The cumulative change attributable to changes in credit risk to 31 December 2025 was a loss of £1.7 million *(2024: loss of £1.5 million)*. The amount has been determined as the amount that is not attributable to changes in market conditions that give rise to market risk. The above liabilities stated at fair value have been calculated in a consistent manner with the assets stated at fair value. Further details of the fair value methodology are included in note 7.

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

## Notes to the financial statements (continued)

### (b) Loan notes and other borrowings

#### (i) Loan notes

On 11 June 2002, the Company issued £300 million of mortgage backed loan notes (class A1 and A2 notes) in order to fund the purchase of a mortgage portfolio from UKER. All of the £45 million of A1 notes, which were issued at par, were fully redeemed by 2011. The balance of these notes at 31 December 2025 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 A2 notes were issued at 99.724%.

Interest on the notes is payable quarterly in arrears. Interest payable on the notes which are listed on the London Stock Exchange, and traded subject to certain restrictions, is as follows:

| | Capital balance outstanding at end of year (£'000) | Credit rating | Interest rate |
|---|---|---|---|
| loan notes | Total £90.4m | (S&P, Moody's) | |
| Class A2 (£255 m) | 90,358 | A+, Aaa | 5.88 % |

The A2 notes rank pari passu in point of payment and security without preference or priority amongst themselves.

The A2 notes are now being redeemed according to the redemption schedule that commenced in August 2016, although the Company will be obliged to further redeem (in full or in part) if certain early redemption conditions are satisfied.

Unless previously redeemed in full, each class of notes will mature at its principal amounts outstanding on the interest payment date falling in:

A2 notes May 2032

The Company may, at its option, redeem all (but not some only) of the notes at their principal amounts outstanding in the event of certain tax changes affecting the notes.

#### (ii) Other borrowings

On 11 June 2002, the Company entered into an agreement with Barclays Bank plc to provide a 364 day borrowing facility of £70.0 million. The borrowing facility is renewed annually and is available to draw upon when mortgage redemptions are insufficient to cover the expenses of the Company and the interest payable on the loan notes. Per the terms of the arrangement, the available balance is gradually decreasing. At 31 December 2025, the available balance, all undrawn, was £18.9 million *(2024: £22.3 million).*

## 14. Payables and other financial liabilities

| | 2025 | 2024 |
|---|---|---|
| | £'000 | £'000 |
| Amounts due to UKER | **1,664** | 1,400 |
| Amounts due to other related parties | **25** | 25 |
| Other financial liabilities | **529** | 300 |
| **Total as at 31 December** | **2,218** | 1,725 |
| Expected to be settled within one year | **2,218** | 1,725 |
| | **2,218** | 1,725 |

# Notes to the financial statements (continued)

## 15. Statement of cash flows disclosures

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

| | 2025 £'000 | 2024 £'000 |
|---|---|---|
| Profit before tax | **1** | 2 |
| Adjustments for: | | |
| **Fair value losses / (gains) on:** | | |
| Mortgage loans | **2,056** | 8,652 |
| Borrowings | **859** | (1,425) |
| Deferred consideration | **5,717** | 356 |
| Interest expense | **6,467** | 8,141 |
| Interest receivable on mortgage loans | **(14,562)** | (16,252) |
| | **537** | (528) |
| **Changes in working capital:** | | |
| (Increase) / decrease in prepayments and accrued income | **(1)** | 7 |
| Increase / (decrease) in payable and other financial liabilities | **493** | (503) |
| | **492** | (496) |
| Repayment of loan notes capital balance | **(23,118)** | (26,634) |
| Proceeds from redemption of mortgages | **31,210** | 34,922 |
| Interest paid | **(6,599)** | (8,275) |
| **Total cash generated from / (used in) operating activities** | **2,523** | (1,009) |

Redemptions of mortgages, redemptions of securitised mortgage loan notes and interest expense on securitised mortgage loan notes are included within operating cash flows as they represent the operating activities of the Company.

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

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

| | 2025 £'000 | 2024 £'000 |
|---|---|---|
| Cash at bank and in hand | **14,177** | 11,655 |

## 16. Capital structure

In managing its capital, the Company seeks to:

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

ii. retain financial flexibility by maintaining strong liquidity.

The Company is not subject to any externally imposed capital requirements. The Company manages shareholders' equity of £49,000 *(2024: £48,000)* as capital.

## 17. Risk management

### (a) Risk management framework

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

The RMF has been adopted by the boards of the legal entities within the business collectively referred to as "Insurance, Wealth & Retirement (IWR)" (including this Company).

## Notes to the financial statements (continued)

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

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

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

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

### (b) Market risk

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

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

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

These risks are also partially mitigated by indemnified guarantees in place which pass the NNEG risk to the guarantee provider.

#### (i) Property price risk

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

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

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

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

The LTVs by age banding in the table below are as at 31 December 2025.

| LTV | Under 75 | 75-79 | 80-84 | 85-89 | 90-94 | 95-99 | 100+ | Total |
|---|---|---|---|---|---|---|---|---|
| | £'m | £'m | £'m | £'m | £'m | £'m | £'m | £'m |
| **Up to 40%** | — | — | 6.2 | 33.2 | 6.2 | 3.6 | 0.1 | **49.3** |
| **Up to 50%** | — | — | 3.6 | 34.0 | 31.2 | 3.3 | — | **72.1** |
| **Up to 60%** | — | — | 0.4 | 12.9 | 29.1 | 9.7 | 0.3 | **52.4** |
| **Up to 70%** | — | — | 0.3 | 2.2 | 10.1 | 7.9 | 0.6 | **21.1** |
| **Up to 80%** | — | — | — | 0.3 | 1.9 | 2.5 | 0.3 | **5.0** |
| **Up to 90%** | — | — | — | — | 1.1 | — | 0.3 | **1.4** |
| **Up to 100%** | — | — | — | — | — | 0.3 | — | **0.3** |
| **Over 100%** | — | — | — | — | — | — | — | **—** |
| **Total** | **—** | **—** | **10.5** | **82.6** | **79.6** | **27.3** | **1.6** | **201.6** |

## Notes to the financial statements (continued)

The LTVs by age banding in the table below are as at 31 December 2024.

| LTV | Under 75 | 75-79 | 80-84 | 85-89 | 90-94 | 95-99 | 100+ | Total |
|---|---|---|---|---|---|---|---|---|
| | £'m | £'m | £'m | £'m | £'m | £'m | £'m | £'m |
| Up to 40% | — | — | 18.1 | 43.9 | 12.4 | 2.5 | 0.2 | 77.1 |
| Up to 50% | — | — | 6.0 | 37.0 | 33.3 | 4.4 | 0.1 | 80.8 |
| Up to 60% | — | — | 1.3 | 13.2 | 21.0 | 9.5 | 0.4 | 45.4 |
| Up to 70% | — | — | 0.5 | 1.4 | 5.6 | 3.6 | 1.5 | 12.6 |
| Up to 80% | — | — | — | 0.9 | 1.6 | 0.4 | 0.6 | 3.5 |
| Up to 90% | — | — | — | — | 0.3 | 0.3 | 0.3 | 0.9 |
| Up to 100% | — | — | — | — | — | — | — | — |
| Over 100% | — | — | — | — | — | — | — | — |
| Total | — | — | 25.9 | 96.4 | 74.2 | 20.7 | 3.1 | 220.3 |

LTVs are published quarterly, (February, May, August and November) in the Investor Report. Investor Reports are available at www.erfunding.co.uk, which are unaudited.

**(ii) Interest rate risk**

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

**(iii) 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 Company is exposed are monitored and if these fall below a certain threshold collateralisation or other risk mitigation techniques are implemented.

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

The impact of change in fair value of financial instruments attributable to a change in credit risk is disclosed in note 8(a) and 13(a).

**Concentrations of credit risk**

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

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

| | **Carrying value in the statement of financial position** | **Collateral held** | **2025 Net credit exposure** |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| Loans | **201,554** | **201,554** | **—** |

| | Carrying value in the statement of financial position | Collateral held | 2024 Net credit exposure |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Loans | 220,257 | 220,257 | — |

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

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

## Notes to the financial statements (continued)

increased significantly since initial recognition. The majority of the Group's assets consist of lifetime mortgage loans which are not subject to an external credit rating.

*Calculation of expected credit losses*

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

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

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

The Company makes use of the simplified approach when calculating expected credit losses on 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 receivables.

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

*Modification of contractual cash flows that have not resulted in derecognition*

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

### (d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments, if the cash flows from the mortgages differ from those expected. Such differences would arise from mortality, morbidity and voluntary prepayment risks.

The company has a committed but undrawn 364 day borrowing facility of £18.9 million *(2024: £*22.3 *million)* which has been sized to cover significant stresses on mortgage cash flows.

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

| | | | | 2025 |
|---|---|---|---|---|
| | **Within 1 year** | **1-5 years** | **Over 5 years** | **No contractual maturity** |
| | **£'m** | **£'m** | **£'m** | **£'m** |
| **Liabilities** | | | | |
| Borrowings | **25.9** | **65.7** | **13.3** | **—** |
| Deferred consideration | **—** | **—** | **—** | **121.7** |
| Payables and other financial liabilities | **2.2** | **—** | **—** | **—** |

| | | | | 2024 |
|---|---|---|---|---|
| | Within 1 year | 1-5 years | Over 5 years | No contractual maturity |
| | £'m | £'m | £'m | £'m |
| **Liabilities** | | | | |
| Borrowings | 29.3 | 82.1 | 22.7 | — |
| Deferred consideration | — | — | — | 116.0 |
| Payables and other financial liabilities | 1.7 | — | — | — |

The carrying value of the borrowings is £13.0 million lower *(2024: £19.9 million lower)* than the anticipated payment at maturity. The borrowings payment profile 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.

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

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

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

Further information in relation to lifetime mortgage collateral is set out in note 17(c).

## Notes to the financial statements (continued)

### 19. Related party transactions

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

#### (a) Loan notes due to related parties

Included within the loan notes issued by the Company are £9.2 million *(2024: £11.7 million)* of loan notes which are held by related parties within the Group. Interest settled during the year in respect of these loan notes amounted to £0.6 million *(2024: £0.8 million)*.

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

| | **2025** Expenses incurred in year | 2024 Expenses incurred in year |
|---|---|---|
| | **£'000** | £'000 |
| UKER – portfolio administration and cash handling fees | **539** | 641 |
| UKER - unrealised losses on deferred consideration | **5,717** | 356 |
| | **6,256** | 997 |

#### (c) Payable at year end

| | **2025** | 2024 |
|---|---|---|
| | **£'000** | £'000 |
| UKER – deferred consideration | **121,701** | 115,984 |
| UKER – other | **1,664** | 1,400 |
| Other related parties - other | **25** | 25 |
| | **123,390** | 117,409 |

#### (d) Key management compensation

Wilmington Trust SP Services (London) Limited received fees of £14,554 *(2024: £14,553)* including VAT during the year to 31 December 2025, in respect of directors' remuneration.

There are no amounts receivable from or payments due to members of key management. Details of directors' emoluments are given in note 4.

#### (e) Parent entity

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

#### (f) Ultimate controlling entity

The ultimate controlling entity, and parent of the largest and smallest groups which consolidate the results of the Company, is Aviva plc. Its Group Financial Statements are available on application to the Group Company Secretary, Aviva plc, 80 Fenchurch Street, London EC3M 4AE, and on the Aviva plc website at www.aviva.com.