Equity Release Funding (No.2) plc

Registered in England No. 4414548, Registered Office: c/o Wilmington Trust SP Services (London) Limited, 6 Broad Street Place, Fifth Floor, London, EC2M 7JH

Directors and Officers

Directors

S Masson
M McDermott
Wilmington Trust SP Services (London) Limited

Secretary

Wilmington Trust SP Services (London) Limited

Auditor

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Equity Release Funding (No.2) plc
Contents

The dırectors present theır annual report and audıted financıal statements for Equıty Release Fundıng (No 2) plc (the Company) for the year ended 31 December 2007

Business review

The prıncıpal actıvıty of the Company ıs ınvestment ın lıfetıme mortgage loans secured by first charges over propertıes wıthın the Unıted Kıngdom, to raıse/borrow money and to grant securıty over ıts assets The dırectors consıder that the Company wıll contınue to operate ın a manner consıstent wıth 2007 ınto the foreseeable future

The maın assets of the Company consıst of a largely closed book of lıfetıme mortgage loans Cash flows receıved from these mortgages upon redemptıon are utılısed to pay expenses and to repay the borrowıngs of the Company Detaıls of the results are gıven ın the ıncome statement on page 9

Risk management

A descrıptıon of the prıncıpal rısks and uncertaıntıes facıng the Company and ıts rısk management polıcıes are set out ın note 16 to the financıal statements

Key Performance Indicators ('KPIs')

Gıven the straıghtforward nature of the busıness, the Company's dırectors are of the opınıon that analysıs usıng KPIs ıs not necessary for an understandıng of the development, performance or posıtıon of the busıness

Envıronmental

The Company does not have a separate Envıronmental polıcy and follows the polıcy set for Avıva plc, who have confirmed complıance wıth the polıcy Avıva plc recognıses that theır busıness actıvıtıes have dırect and ındırect ımpacts on the socıetıes ın whıch they operate Avıva plc endeavours to manage these ın a responsıble manner, belıevıng that sound and demonstrable performance ın relatıon to corporate socıal responsıbılıty (CSR) polıcıes and practıces ıs a fundamental part of busıness success For further detaıls, vıew the latest annual CSR report (www avıva com/csr), whıch covers performance ın respect of standards of busıness conduct, the envıronment, human rıghts, health & safety as well as the promotıon of good and faır relatıons wıth theır employees, customers, supplıers and the broader communıty

Dividends

The dırectors do not recommend the payment of a dıvıdend for the year *(2006 £nıl)*

Directors

The names of the present dırectors of the Company appear on page 1

J P J Faırrıe resıgned as a dırector of the Company on 20 July 2007

S Masson was appoınted as a dırector of the Company on 3 September 2007

M McDermott and Wılmıngton Trust SP Servıces (London) Lımıted served as dırectors of the Company throughout the year

Equity Release Funding (No.2) plc

Directors' report (continued)

Directors' responsibilities

The directors are required to prepare financial statements for each accounting period that comply with the relevant provisions of the Companies Act 1985 and International Financial Reporting Standards (IFRS) as adopted by the European Union, and which present fairly the financial position, financial performance and cash flows of the Company at the end of the accounting period A fair presentation of the financial statements in accordance with IFRS requires the directors to

- select suitable accounting policies and verify they are applied consistently in preparing the financial statements, on a going concern basis unless it is inappropriate to presume that the Company will continue in business,
- 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 IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance, and
- state that the Company has complied with applicable IFRS, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for maintaining proper accounting records which are intended to disclose with reasonable accuracy, at any time, the financial position of the Company They are also ultimately responsible for the systems of internal control maintained by the Company for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities

Directors' interests

The requirement for directors to disclose their interests in the Company's ultimate holding company was repealed by the Companies Act 2006

Directors' indemnity arrangements

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

Auditor

Under Section 487 of the Companies Act 2006 the Auditors are deemed to have been reappointed

Disclosure of information to the auditor

Each person who was a director of the Company on the date that this report was approved confirms that so far as the director is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

By order of the Board

Sunil Masson
Authorised Signatory

Wilmington Trust SP Services (London) Limited *Secretary*

27 *May 2008*

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

We have audited the financial statements of Equity Release Funding (No 2) plc (the Company) for the year ended 31 December 2007 which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and the related notes 1 to 19 These financial statements have been prepared under the accounting policies set out on pages 6 to 8

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985 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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether the information given in the directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London

28 May 2008

Equity Release Funding (No.2) plc

Accounting policies

The Company, which is 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

(A) Basis of presentation

These financial statements have been prepared in accordance with IFRS applicable at 31 December 2007

In August 2005 the International Accounting Standards Board (IASB) issued amendments to IAS 1, *Capital Disclosures* The requirements are applicable for accounting periods beginning on or after 1 January 2007 and have been applied by the Company in these financial statements

During 2007 the IASB issued IAS 1, *Presentation of Financial Statements A Revised Presentation*, and an amendment to IAS 23, *Borrowing Costs* These are applicable for accounting periods beginning on or after 1 January 2009 and, on adoption, will not have any material impact on the Company's financial reporting

Since the year end, the IASB has issued an amendment to IAS27, *Consolidated and Separate Financial Statements*, which is applicable to accounting periods beginning on or after 1 July 2009, and amendments to IAS 1, *Presentation of Financial Statements* and IAS 32, *Financial Instruments Presentation*, which are applicable to accounting periods beginning on or after 1 January 2009 None of these has yet been endorsed by the European Union and, on adoption, will not have any material impact on the Company's financial reporting

Unless otherwise noted, the amounts shown in these financial statements are in thousands of pounds sterling (£'000)

(B) Use of estimates

The preparation of financial statements requires the Company to make estimates and assumptions that affect items reported in the balance sheet and income statement and the disclosure of contingent assets and liabilities at the date of the financial statements This is particularly so in the estimation of loan assets, for which further details are given in policy G and note 6 Although these estimates are based on management's best knowledge of current facts, circumstances and to, some extent, future events and actions, actual results ultimately may differ from those estimates, possibly significantly

(C) Fee and commission income

Fee and commission income consists primarily of redemption administration fees and early redemption fees Revenue from administration fees and early redemption fees is recognised when earned

(D) Net investment income

Investment income consists of interest receivable for the year, movements in amortised cost, realised gains and losses, and unrealised gains and losses on financial assets and liabilities at fair value through profit and loss (as defined in accounting policy E) Interest income is recognised as it accrues, taking into account the effective yield on the investment

(E) Financial investments

The Company has taken advantage of the revised fair value option in IAS 39, presenting the lifetime mortgages and the associated liabilities and derivative financial instruments at fair value through profit and loss (FV), since they are managed as a portfolio on a fair value basis Presentation at fair value provides more relevant information and ensures that any accounting mismatch is minimised

The FV category has two sub-categories – those that meet the definition as being held for trading and those the Company chooses to designate as FV (referred to in this accounting policy as 'other than trading') Derivative financial instruments are classified as trading All other securities in the FV category are classified as other than trading

Changes in the fair value of trading and other than trading investments are included in the income statement in the period in which they arise Fair values are estimated using discounted cash flow forecasts These include a risk adjusted discount rate to reflect the risks associated with these products

(F) Derivative financial instruments

Derivative financial instruments include interest rate swaps and other financial instruments that derive their value mainly from underlying interest rates All derivatives are initially recognised in the balance sheet at their fair value, which usually represents their cost They are subsequently re-measured at their fair value Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative

Derivative contracts may be traded on an exchange or over-the-counter (OTC) Exchange-traded derivatives are standardised and include certain futures and option contracts OTC derivative contracts are individually negotiated between contracting parties and include forwards, swaps, caps and floors Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the balance sheet as they do not represent the potential gain or loss associated with such transactions These amounts are disclosed in note 17

Interest rate swaps

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

(G) Loans

Lifetime mortgages are designated at fair value through profit and loss, since they are managed as a portfolio on a fair value basis, and presentation at fair value provides more relevant information and ensures that any accounting mismatch is minimised

Other loans are held at amortised cost, using the effective interest rate method To the extent that a loan is uncollectible, it is written off as impaired Subsequent recoveries are credited to the income statement

(H) Cash flow statement

Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at 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 normally those with less than three months' maturity from the date of acquisition, and include certificates if deposit For the purposes of the cash flow statement, cash and cash equivalents also include bank overdrafts, which are included within payables and other financial liabilities on the balance sheet

Operating cash flows

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

(I) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is more probable than not

The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract

(J) Income taxes

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years Taxable profits are computed using UK GAAP as it was up to 31 December 2004, in accordance with the provisions of current UK tax legislation Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to reserves as appropriate

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

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

(K) Borrowings

Loan notes backed by mortgages are designated at fair value through profit and loss, since they are managed as a portfolio on a fair value basis, and presentation at fair value provides more relevant information and ensures that any accounting mismatch is minimised

Other borrowings are recognised initially at their issue proceeds less transaction costs incurred Subsequently, borrowings are stated at amortised cost, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method

All borrowing costs are expensed as they are incurred

(L) 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

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

Equity Release Funding (No.2) plc
Income statement
For the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Income	1		
Net investment income	D	**20,168**	21,500
Fee and commission income	C	**169**	717
Other operating income		**84**	867
		20,421	23,084
Expenses	2		
Fee and commission expense		**(1,221)**	(1,217)
Other operating costs		**6,744**	(4,144)
Finance costs		**(25,942)**	(17,721)
		(20,419)	(23,082)
Profit before tax		**2**	2
Tax charge	J & 5	**(1)**	(1)
Profit for the year		**1**	1

The accounting policies (identified alphabetically) on pages 6 to 8 and notes (identified numerically) on pages 13 to 22 are an integral part of these financial statements

Equity Release Funding (No.2) plc
Balance sheet
As at 31 December 2007

	Note	2007 £'000	2006 £'000
Assets			
Loans	G & 6	**292,105**	318,159
Receivables and other financial assets	8	**361**	193
Prepayments and accrued income		**139**	113
Cash and cash equivalents	H	**24,385**	25,456
Total assets		**316,990**	343,921
Equity			
Ordinary share capital	L & 9	**13**	13
Retained earnings	10	**9**	8
Total equity		**22**	21
Liabilities			
Current tax liabilities	J & 11	**1**	1
Provisions	I & 12	**19,740**	26,502
Borrowings	K & 13	**285,020**	315,567
Payables and other financial liabilities	14	**12,207**	1,830
Total liabilities		**316,968**	343,900
Total equity and liabilities		**316,990**	343,921

Approved by the Board on 27 May 2008

Sunil Masson
Authorised Signatory

Wilmington Trust SP Services (London) Limited *Director*

The accounting policies (identified alphabetically) on pages 6 to 8 and notes (identified numerically) on pages 13 to 22 are an integral part of these financial statements

Equity Release Funding (No.2) plc
Statement of changes in equity
For the year ended 31 December 2007

	2007 £'000	2006 £'000
Balance at 1 January	**21**	20
Profit for the year	**1**	1
Balance at 31 December	**22**	21

The accounting policies (identified alphabetically) on pages 6 to 8 and notes (identified numerically) on pages 13 to 22 are an integral part of these financial statements

Equity Release Funding (No.2) plc
Cash flow statement
For the year ended 31 December 2007

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

	Note	2007 £'000	2006 £'000
Cash flows from operating activities			
Cash used in operations	15(a)	**(3,309)**	(726)
Tax paid		**(1)**	-
Net cash used in operating activities		**(3,310)**	(726)
Cash flows from financing activities			
Drawdown of borrowings		**2,239**	2,240
Net cash from financing activities		**2,239**	2,240
Net (decrease)/increase in cash and cash equivalents		**(1,071)**	1,514
Cash and cash equivalents at 1 January		**25,456**	23,942
Cash and cash equivalents at 31 December	15(b)	**24,385**	25,456

The accounting policies (identified alphabetically) on pages 6 to 8 and notes (identified numerically) on pages 13 to 22 are an integral part of these financial statements

Equity Release Funding (No.2) plc
Notes to the financial statements
For the year ended 31 December 2007

1. Details of income

	2007 £'000	2006 £'000
Net investment income		
Interest and similar income – from financial instruments designated as other than trading	**24,486**	24,332
Other income from investments designated as trading		
Unrealised (losses)/gains	**(219)**	2,177
Other income from investments designated as other than trading		
Unrealised losses	**(4,099)**	(5,009)
	20,168	21,500
Fee and commission income	**169**	717
Other operating income		
Reinsurance rebates	**84**	84
Substitution income	**-**	783
	84	867
Total income	**20,421**	23,084

2. Details of expenses

	2007 £'000	2006 £'000
Fee and commission expenses	**1,221**	1,217
Other operating expenses		
Audit fees	**18**	23
(Decrease)/increase in provisions	**(6,762)**	4,121
	(6,744)	4,144
Finance costs		
Interest expense on		
Securitised mortgage loan notes	**16,277**	16,643
Swap interest	**9,542**	954
Liquidity facility	**122**	122
Other similar charges	**1**	2
	25,942	17,721
Total expenses	**20,419**	23,082

3. Directors' emoluments

Wilmington Trust SP Services (London) Limited received fees of £16,244 *(2006 £15,795)* including VAT during the year to 31 December 2007, in respect of structuring and management services

4. Auditor's remuneration

	2007 £'000	2006 £'000
Fees for the statutory audit of the Company's financial statements	**18**	23

Fees paid to Ernst & Young LLP for services other than the statutory audit of this Company are not disclosed in these financial statements since the consolidated financial statements of the ultimate parent, Aviva plc, are required to disclose non-audit fees on a consolidated basis

5. Tax

(a) Tax charged to the income statement

The total tax charged to the income statement is as follows

	2007 £'000	2006 £'000
Current tax		
For the year	**1**	1
Total tax charged to the income statement (note 5(b))	**1**	1

With effect from 1 April 2007 the standard UK corporation tax rate applicable to small companies changed from 19% to 20%

(b) Tax reconciliation

The tax on the Company's profit before tax differs from the tax calculated at the standard UK corporation tax rate as follows

	2007 £'000	2006 £'000
Profit before tax	**2**	2
Tax calculated at standard UK corporation tax rate of 20% *(2006 19%)*	**-**	-
Disallowable expenses	**1**	1
Total tax charged to the income statement (note 5(a))	**1**	1

6. Loans

Carrying amounts

The carrying amounts of loans at 31 December were as follows

	2007 £'000	2006 £'000
Lifetime mortgage loans (note 7)	**292,105**	318,159

Of the above total, £292,105,000 *(2006 £318,159,000)* is expected to be recovered more than one year after the balance sheet date This is because the majority of the loans are lifetime mortgages which by their nature do not have any contractual maturity

The change in fair value of mortgage loans during the year attributable to a change in credit risk was £16,555,000 *(2006 £nil)* The cumulative change attributable to changes in credit risk to 31 December 2007 was £16,555,000 *(2006 £nil)*

7. Lifetime mortgages and related assets

On 11 June 2002, the Company purchased £276 million of mortgage assets at market value from Norwich Union Equity Release Limited (NUER), a wholly owned subsidiary of Norwich Union Life & Pensions Limited 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 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 NUER

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

NUER administers the mortgage portfolio

8. Receivables and other financial assets

	2007 £'000	2006 £'000
Amounts due from NUER	**-**	143
Other debtors	**226**	-
Reinsurance rebates	**135**	50
	361	193

None of the above total *(2006 £nil)* is expected to be recovered more than one year after the balance sheet date

9. Ordinary share capital

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

	2007	2006
	£	£
The authorised share capital of the Company was 50,000 ordinary shares of £1 each	**50,000**	50,000
The allotted, called up and fully paid share capital of the Company was 2 ordinary shares of £1 each	**2**	2
The allotted, called up and partly paid share capital of the Company was 49,998 ordinary shares of £1 each (25p paid per share)	**12,500**	12,500
	12,502	12,502

10. Retained earnings

	2007	2006
	£'000	£'000
At 1 January	**8**	7
Profit for the year	**1**	1
At 31 December	**9**	8

11. Tax liabilities

(a) General

The Company has no tax liabilities payable in more than one year *(2006 £nil)*

(b) Deferred tax

The Company had no recognised or unrecognised deferred tax balances at the year end *(2006 £nil)*

12. Provisions

	2007	2006
	£'000	£'000
Balance at 1 January	**26,502**	22,381
(Decrease)/increase in provisions	**(6,762)**	4,121
Balance at 31 December	**19,740**	26,502

Under the terms of the agreement for the purchase of mortgage loans, the Company has a liability to pay deferred consideration to NUER when surplus funds become available under the priority of payments Provision has been made to pay deferred consideration in any period in which surplus income accrues, which will ultimately be paid out by way of deferred consideration

Of the above total, £19,740,000 *(2006 £26,502,000)* is expected to be paid more than one year after the balance sheet date

13. Borrowings

(a) Carrying amount

	2007	2006
	£'000	£'000
Secuntised mortgage loan notes	272,702	305,489
Amounts owed to credit institutions	12,318	10,078
	285,020	315,567

The carrying amount of the above borrowings that are stated at amortised cost is £12 3 million *(2006 £10 1 million)*

The change in fair value of mortgage loan notes during the year attributable to a change in credit risk was £13,889,000 *(2006 £nil)* The cumulative change attributable to changes in credit risk to 31 December 2007 was £13,889,000 *(2006 £nil)*

(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 The balance of these notes at 31 December 2007 is shown at fair value

The loan notes are secured over a portfolio of mortgage loans secured by first charges over residential properties in the UK The mortgages were purchased from NUER

The A1 notes were issued at par and the A2 notes were issued at 99 724%

Interest on the notes is payable quarterly in arrears, unpaid interest is capitalised quarterly Interest payable on the notes is as follows

The notes are listed on the London Stock Exchange

£300 million Mortgage backed loan notes	Capital balance outstanding at end of year	Credit rating (S&P, Moody's)	Up to May 2012	From May 2012
Class A1 (£45 million)	£13,591,000	AAA, Aaa	LIBOR + 0 44%	LIBOR + 1 50%
Class A2 (£255 million)	£255,000,000	AAA, Aaa	5 88%	5 88%

The A1 and A2 notes ('the senior notes') rank pari passu in point of payment and security without preference or priority amongst themselves A1 notes are to be redeemed as funds become available Liquidity has been provided through the swap agreement (see note 17) and borrowing facility with the intention that the A1 notes will be redeemed in full in May 2012, unless redeemed prior to this date A2 notes are to be redeemed according to a redemption schedule commencing in August 2016, although the Company will be obliged to 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

A1 notes	May 2027
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 or the swap agreement (see note 17) *(ii) Amounts owed to credit institutions*

As the loan due to credit institutions is not directly funding the mortgages, it is recognised within borrowings at amortised cost Under the terms of this liquidity arrangement the Company is committed to make a series of scheduled payments commencing in May 2028, which are required to be prepaid if cash is available The present value of such prepayments, which represents the fair value, is partially dependent on long term swap rates At year end it is estimated that such amounts will be £8 9 million *(2006 nil)* in excess of the amortised cost of the loan These excess amounts have been recognised within interest payable (note 14)

At 31 December 2007, the Company had a committed but undrawn 364 day borrowing facility of £70 million *(2006 £70 million)*

14. Payables and other financial liabilities

	2007	2006
	£'000	£'000
Derivative financial liabilities (note 17)	**599**	382
Interest payable (note 13 (b)(ii))	**11,079**	1,424
Amounts due to NUER	**510**	-
Other financial liabilities	**19**	24
	12,207	1,830

Of the above total, £9 5 million *(2006 £0 4 million)* is expected to be paid more than one year after the balance sheet date

15. Cash flow statement

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

	2007	2006
	£'000	£'000
Profit before tax	**2**	2
Adjustments for		
Fair value losses on investments	**4,317**	2,832
Interest receivable on mortgage loans	**(22,891)**	(23,179)
Interest expense on borrowings	**16,277**	16,643
Changes in working capital		
Increase in receivables and other financial assets	**(168)**	(165)
Increase in prepayments and accrued income	**(26)**	(14)
(Decrease)/increase in provisions	**(6,762)**	4,121
Increase in payables and other financial liabilities	**10,160**	585
Interest paid on borrowings	**(16,277)**	(16,643)
Repayment of borrowings	**(12,176)**	(8,523)
Proceeds from redemption of mortgages	**24,235**	23,615
Cash used in operations	**(3,309)**	(726)

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

(b) Cash and cash equivalents in the Cash flow statement at 31 December comprised:

	2007	2006
	£'000	£'000
Cash at bank and in hand	**24,385**	25,456

16. Risk management

(a) Risk management framework

The primary objective of the Company's risk and financial management framework is to protect it from events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities Risk is categorised as follows

- Market
- Credit
- Liquidity

The Company has established a number of policies focusing on the management of financial and non-financial risks Further details as to the operation of these policies are provided by risk area below

(b) Market risk

Market risk is the risk of adverse financial impact due to changes in fair values as a result of fluctuations in interest rates and the house price index (HPI) Market risk arises within the Company due to fluctuations in the value of lifetime mortgage assets relative to their funding and relative to the value of the property on which they are secured

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

Profit for the Company for the year is calculated as 0 01% of interest accruing on the mortgages 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 The Company has therefore not provided any detailed sensitivity analysis as required by IFRS 7

(i) Property price risk

Property price risk arises from sustained underperformance in the HPI with the resultant increase in the likelihood that the mortgage debt will exceed the proceeds of sale at the date of redemption

The level of HPI is monitored and the impact of exposure to adverse HPI regularly reviewed To mitigate this risk the loan to value ratios on origination are at low levels and the performance of the mortgage portfolio is monitored through dilapidation reviews

Short term fluctuations in HPI do not affect profitability as the mortgages have low loan to value ratios and are not expected to redeem in the short term Accordingly, no sensitivity tests have been performed for changes in property prices

(ii) Interest rate risk

Interest rate risk arises primarily from fluctuations in the value of lifetime mortgage assets and their related funding and derivatives

Interest rate risk is controlled through the close matching of duration and value of mortgages and mortgage funding and the use of a variety of derivative instruments, 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 loans will be repaid prior to their expected maturity This risk is mitigated by the early repayment charges which apply to the loans and has been allowed for in the initial stress testing of the cash flows of the Company

(c) Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties not being able to meet their obligations as they fall due

Mortgage loans are secured on the borrower's property by a first charge Credit risk on mortgages is the risk that the net proceeds of the property are insufficient to discharge the loan in full This may be as a result of an extension in longevity, or an underperformance of house prices The risk of such credit losses emerging is managed through the lending criteria for the mortgages which include low initial loan to property value The company also has the benefit of insurance policies, which insure any un-discharged portion of a loan where a sale has occurred as a result of death, or the need for long term care of the relevant borrower The Company is solely exposed to the UK property market

Given the low loan to value rates, insurance policies in place, and the long-term nature of the mortgage loans, the valuation of these assets would not be impacted by a reasonably possible change in property prices on 31 December 2007

The credit risk on the Company's bankers and liquidity providers is managed through credit rating dependent collateral arrangements

The carrying amount of assets included on the balance sheet represents the maximum credit exposure

(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 that expected Such differences would arise from mortality, morbidity and voluntary prepayment risks Liquidity is provided to the Company through the swap agreement (see note 17) and the Company has a committed but undrawn 364 day borrowing facility of £70 million *(2006 £70 million)* which has been sized to cover significant stresses on mortgage cash flows

17. Derivative financial instruments

(a) The Company uses non-hedge derivatives to mitigate risk, as detailed below:

	2007			2006		
	Contract/ notional amount	**Fair value asset**	**Fair value liability**	Contract/ notional amount	Fair value asset	Fair value liability
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Interest rate contracts						
Interest rate swaps	**45,000**	**-**	**(599)**	45,000	-	(382)

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

	2007	2006
	£'000	£'000
Within one year	**(2,300)**	(2,200)
Between one and five years	**29,800**	27,600
After five years	**-**	-
	27,500	25,400

The above table includes undiscounted cash flows from the interest rate swap and liquidity element of the swap, which is shown as part of borrowings (note 13 (b)(ii))

(b) Future commitments

In June 2002, the Company entered into an interest rate swap agreement, the purpose of which is to protect the Company from both interest rate risk in respect of the floating rate notes and to provide liquidity to the company The notional amount outstanding as at 31 December 2007 and 2006 was £45 million and the swap had an expiry date of May 2027 Under the terms of the swap the Company receives interest of three month LIBOR and pays interest of 0 55% of the notional amount, payable quarterly The Company is also committed to making a series of scheduled payments totalling £140 8 million commencing in May 2028

The Company may terminate the swap prior to expiry at which point future interest receipts would be accelerated and received in the form of an early termination payment The market value of this early termination payment has been hedged by the Company through a second termination swap If cash is available, future scheduled payments would also be accelerated and repaid

The liquidity provided through the above contracts has been recognised within borrowings (note 13 (b) (ii)) The disclosures in section (a) above relate to the interest rate hedge achieved through these contracts

Fair value liability has been disclosed as "Derivative financial liabilities" in note 14 under payables and other financial liabilities

18. Capital

In managing its capital, the Company seeks to retain financial flexibility by maintaining strong liquidity

The Company manages IFRS shareholders' equity of £22,000 *(2006 £21,000)* as capital

The Company is not subject to any externally imposed capital requirements

19. Related party transactions

(a) The members of the Board of Directors are listed on page 1 of these financial statements

(b) Expenses payable to related parties

	2007 Expense incurred in year £'000	2006 Expense incurred in year £'000
Due (from)/to NUER	**(5,581)**	5,314

The Company paid fees to NUER during the course of the year of £1,180,000 *(2006 £1,193,000)* in respect of portfolio administration and cash handling services

(c) Payable at year end

	2007 £'000	2006 £'000
Due to NUER	**20,253**	26,502

(d) Receivable at year end

	2007 £'000	2006 £'000
Due from NUER	-	143

(e) Key management compensation

Wilmington Trust SP Services (London) Limited received fees of £16,244 *(2006 £15,795)* including VAT during the year to 31 December 2007, in respect of structuring and management services

There are no amounts receivable from or payments due to members of the Board of Directors

(f) Parent entity

The immediate holding Company is Equity Release Holdings Limited, a company registered in England

(g) Ultimate controlling entity

The ultimate controlling entity is Aviva plc, a company registered in England Its Group accounts are available on www aviva com or by application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ