Equity Release Funding (No.4) plc

Registered in England No. 4986587 Registered Office C/O Wilmington Trust SP Services (London) Limited, Tower 42 (Level 11), International Financial Centre, 25 Old Broad Street, London, EC2N 1HQ

Directors and Officers

Directors

M McDermott
R G Baker
J Fairrie
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.4) plc
Contents

Equity Release Funding (No.4) plc
Directors' report

The directors present their annual report and audited financial statements for Equity Release Funding (No 4) plc (the Company) for the year ended 31 December 2006

Business review

The principal activity of the Company is the investment in lifetime mortgage loans secured by first charges over properties within the United Kingdom, to raise/borrow money and to grant security over its assets The directors consider that the Company will continue to operate in a manner consistent with 2006 into the foreseeable future

The main assets of the Company consist of a largely closed book of lifetime mortgage loans Cash flows received from these mortgages upon redemption are utilised to pay expenses and service and to repay the borrowings of the Company Details of the results are given in the income statement on page 9

Risk management

A description of the principal risks and uncertainties facing the Company and its risk management policies are set out in note 16 to the financial statements

Key Performance Indicators

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business

Environmental

The Company does not have a separate Environmental policy and follows the policy set for Aviva plc, who have confirmed compliance with the policy Aviva plc recognises that their business activities have direct and indirect impacts on the societies in which they operate Aviva plc endeavours to manage these in a responsible manner, believing that sound and demonstrable performance in relation to corporate social responsibility (CSR) policies and practices is a fundamental part of business success For further details, view the latest annual CSR report (www aviva com/csr), which covers performance in respect of standards of business conduct, the environment, human rights, health & safety as well as the promotion of good and fair relations with their employees, customers, suppliers and the broader community

Dividends

The directors do not recommend the payment of a dividend for the year *(2005 £nil)*

Directors

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

M McDermott, J Fairrie, R G Baker and Wilmington Trust SP Services (London) Limited served as directors of the Company throughout the year

Directors' interests

None of the directors who held office at 31 December 2006 had any beneficial interest in the Company's shares

Directors' responsibilities

The directors are required to prepare accounts 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 accounts, 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 accounts

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' 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

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985

Auditor

In accordance with section 385 of the Companies Act, 1985, Ernst & Young LLP have indicated their willingness to continue in office and the directors will place a resolution before the annual general meeting to re-appoint them as auditors for the ensuing year

By order of the Board

Wilmington Trust SP Services (London) Limited *Secretary* **29 MAY 2007** *May 2007*

Equity Release Funding (No.4) plc
Independent auditor's report

Independent auditor's report to the shareholders of Equity Release Funding (No 4) plc

We have audited the financial statements of Equity Release Funding (No 4) plc for the year ended 31 December 2006 which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and the related notes 1 to 18 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 2006 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

31 *May 2007*

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

The financial statements have been prepared in accordance with IFRS applicable at 31 December 2006

In August 2005, the IASB issued IFRS 7, *Financial Instruments Disclosures*, and an amendment to IAS 1, *Capital Disclosures* Although, their requirements are applicable for accounting periods beginning on or after 1 January 2007, the Company has decided to adopt IFRS 7 early and reflect its impact in these financial statements The amendments to IAS 1, which the Company is not adopting early, are expected to result in additional capital disclosures

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 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 redemption 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

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate Unrealised gains and losses represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year

(E) Financial investments

The Company has taken advantage of the revised fair value option, 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, interest rate options 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 rates, and the timing of payments

Interest rate options

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

(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 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 with less than 90 days maturity from the date of acquisition 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

(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 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

(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

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

Equity Release Funding (No.4) plc
Income statement
For the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Income	1		
Net investment income	D	**28,650**	23,446
Fee and commission income	C	**863**	382
Other operating income		**(1,493)**	2,993
		28,020	26,821
Expenses	2		
Fee and commission expenses		**(1,769)**	(1,779)
Other operating costs		**(37)**	(14)
Finance costs		**(26,211)**	(25,023)
		(28,017)	(26,816)
Profit before tax		**3**	5
Tax credit/(expense)	J & 5	**2**	(4)
Profit for the year		**5**	1

The accounting policies (identified alphabetically) on pages 6 to 8 and notes (identified numerically) on pages 13 to 21 are an integral part of these financial statements

Equity Release Funding (No.4) plc
Balance sheet
As at 31 December 2006

	Note	2006 £'000	2005 £'000
Assets			
Loans	G & 6	**479,297**	487,711
Financial investments	E, F & 8	**1,290**	3,089
Receivables and other financial assets	9	**14,519**	14,458
Prepayments and accrued income		**4**	9
Cash and cash equivalents	H	**55**	50
Total assets		**495,165**	505,317
Equity			
Ordinary share capital	L & 10	**13**	13
Retained earnings	11	**7**	2
Total equity		**20**	15
Liabilities			
Current tax (asset)/liability	J & 12	**(2)**	4
Borrowings	K & 13	**447,319**	438,964
Payables and other financial liabilities	14	**47,828**	66,334
Total liabilities		**495,145**	505,302
Total equity and liabilities		**495,165**	505,317

Approved by the Board on 29 MAY 2007

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 21 are an integral part of these financial statements

Equity Release Funding (No.4) plc
Statement of changes in equity
For the year ended 31 December 2006

	2006 £'000	2005 £ 000
Balance at 1 January	15	14
Profit for the year	5	1
Balance at 31 December	20	15

The accountıng polıcıes (ıdentıfied alphabetıcally) on pages 6 to 8 and notes (ıdentıfied numerıcally) on pages 13 to 21 are an ıntegral part of these financıal statements

Equity Release Funding (No.4) plc
Cash flow statement
For the year ended 31 December 2006

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

	Note	2006 £'000	2005 £'000
Cash flows from operating activities			
Cash generated from operations	15(a)	**14,320**	9,206
Tax paid		**(4)**	(4)
Net cash from operating activities		**14,316**	9,202
Cash flows from financing activities			
Net drawdown of borrowings	13(b)	**6,104**	13,674
Interest paid on borrowings		**(20,481)**	(22,906)
Credit facility premium	13(b)	**66**	34
Net cash used in financing activities		**(14,311)**	(9,198)
Net increase in cash and cash equivalents		**5**	4
Cash and cash equivalents at 1 January		**50**	46
Cash and cash equivalents at 31 December	15(b)	**55**	50

The accounting policies (identified alphabetically) on pages 6 to 8 and notes (identified numerically) on pages 13 to 21 are an integral part of these financial statements

Equity Release Funding (No.4) plc
Notes to the financial statements
For the year ended 31 December 2006

1. Details of income

	2006 £'000	2005 £'000
Net investment income		
Interest and similar income	**33,368**	30,439
Other income from investments designated as trading		
Unrealised gains/(losses)	**16,699**	(36,474)
Other income from investments designated as other than trading		
Unrealised (losses)/gains	**(21,417)**	29,481
	28,650	23,446
Fee and commission income	**863**	382
Other operating income		
Bank interest	**120**	77
Amounts due from NUERL	**(1,613)**	2,916
	(1,493)	2,993
Total Income	**28,020**	26,821

2. Details of expenses

	2006 £'000	2005 £'000
Fee and commission expenses	**1,769**	1,779
Other operating expenses		
Audit Fees	**37**	39
Note issue costs expense	**-**	(25)
	37	14
Finance cost		
Interest expense on		
Securitised mortgage loan notes	**20,481**	21,907
Credit facility	**2,261**	1,004
Other similar charges	**3,469**	2,112
	26,211	25,023
Total expenses	**28,017**	26,816

3. Directors' emoluments

Wilmington Trust SP Services (London) Limited received fees of £22,130 *(2005 £15,450)*, including VAT during the year to 31 December 2006 in respect of structuring and management services

4. Auditor's remuneration

	2006 £'000	2005 £'000
Fees for the statutory audit of the Company's financial statements	37	39

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 charge comprises

	2006 £'000	2005 £'000
Current tax		
For this year	-	2
Prior year adjustments	(2)	2
Total current tax (credit)/charge in the income statement (note 5(b))	(2)	4

(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

	2006 £'000	2005 £'000
Net profit before tax	3	5
Tax calculated at standard UK corporation tax rate of 19% *(2005 19%)*	-	1
Adjustment to tax charge in respect of prior year	(2)	2
Disallowed expenses	-	1
Tax (credit)/charge for the period (note 5(a))	(2)	4

6 Loans

Carrying amounts

The carrying amounts at 31 December were as follows

	2006 £'000	2005 £'000
Securitised mortgage loans (note 7)	479,297	487,711

Of the above total, £479,297,000 *(2005 £487,711,000)* is expected to be recovered more than one year after the balance sheet date

7. Securitised mortgages and related assets

On 30 July 2004, the Company purchased £405 million of mortgage assets at market value from Norwich Union Equity Release Limited (NUERL), a wholly owned subsidiary of Norwich Union Life & Pensions Limited These assets are a portfolio of UK Lifetime fixed rate and index linked residential mortgages, wholly secured on properties in the UK In order to fund the purchase of these mortgage assets, the Company issued a series of mortgage backed 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 NUERL The mortgage assets are held by a mortgage trustee – Equity Release Funding Trustee (No 4) Limited (a group company) for the benefit of the Company

NUERL 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 NUERL in the form of deferred consideration

NUERL administers the mortgage portfolio

8. Financial Investments

Financial investments comprise

	2006 £'000	2005 £'000
At fair value through profit and loss – trading		
Derivative financial instruments (note 17)	**1,290**	3,089

9. Receivables and other financial assets

	2006 £'000	2005 £'000
Amounts due from NUERL	**9,721**	11,329
Amount due from ERF Trustee (No 4) Limited	**4,798**	3,129
	14,519	14,458

Of the above total, £9,720,000 *(2005 £11,329,000)* is expected to be recovered more than one year after the balance sheet date

10. Ordinary share capital

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

	2006 £	2005 £
The authorised share capital of the Company was 100,000 ordinary shares of £1 each	**100,000**	100,000
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

11. Retained earnings

	2006 £'000	2005 £'000
Balance at 1 January	**2**	1
Profit for the year	**5**	1
Balance at 31 December	**7**	2

12. Tax liabilities

(a) General

Current tax liabilities payable in more than one year are nil *(2005 £nil)*

(b) Deferred tax

The company had no recognised or unrecognised deferred tax balances at the year end *(2005 £nil)*

13. Borrowings

(a) Carrying amount

	2006 £'000	2005 £'000
Securitised mortgage loan notes	**400,306**	414,634
Amounts owed to credit institutions	**47,013**	24,330
	447,319	438,964

The carrying amount of the above borrowings that are stated at amortised cost is £47 0 million *(2005 £24 3 million)* The fair value of amounts owed to credit institutions is £59 8 million *(2005 £45 2 million)*

(b) Movements during the year

	2006 £'000	2005 £'000
Carrying amount at 1 January	**438,964**	421,194
New borrowings drawn down, net of expenses	**20,354**	22,074
Repayment of borrowings	**(14,250)**	(8,400)
	6,104	13,674
Fair value movements	**(78)**	3,004
Credit facility premium	**66**	34
Other movements	**2,263**	1,058
Movements in the year	**8,355**	17,770
At 31 December	**447,319**	438,964

(c) Loan notes and other borrowings

(i) Loan notes

On 30 July 2004, the Company issued £418 5 million of mortgage backed loan notes in order to fund the purchase of a mortgage portfolio These being £125 million of A1 notes, £215 million of A2 notes, £61 million of B notes, £16 5 million of C notes, and £1 million of D notes The balance of these notes at 31 December 2006 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 NUERL

Interest on the notes is payable quarterly in arrears, at the following rates, unpaid interest is capitalised

The notes are listed on the London Stock Exchange

£418 5 million mortgage backed Loan Notes	Capital balance outstanding at end of year	Credit Rating (S&P, Moody's , Fitch)	Interest rate to June 2011	Interest rate from July 2011
Class A1 (£125 m)	£100,250,000	AAA, Aaa, AAA	LIBOR + 0 25%	LIBOR + 0 5%
Class A2 (£215 m)	£215,000,000	AAA, Aaa, AAA	LIBOR + 0 35%	LIBOR + 0 7%
Class B (£61 m)	£61,000,000	AA, Aa2, AA	LIBOR + 0 75%	LIBOR + 1 5%
Class C (£16 5 m)	£16,500,000	BBB, Baa2, BBB	LIBOR + 1 65%	LIBOR + 3 3%
Class D (£1 m)	£1,000,000	BBB-, Baa2, BBB	LIBOR + 1 95%	LIBOR + 3 9%

The A1 and A2 notes rank pari passu in point of payment and security without preference or priority amongst themselves The A1 and A2 notes rank in priority to the B notes in point of payment and security The B notes rank in priority to the C notes in point of payment and security, and the C notes rank in priority to the D notes in point of payment and security The A1 notes are to be redeemed as funds become available from mortgage redemptions The A2, B, C and D notes are to be redeemed according to a redemption schedule commencing in October 2030, October 2039, October 2043 and October 2047 respectively, although it is intended that these notes will be refinanced prior to July 2011

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	July 2039
A2 Notes	July 2039
B Notes	July 2043
C Notes	July 2047
D Notes	July 2048

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

During 2004, the Company entered into a credit facility agreement, the purpose of which is to provide the Company with cash in the first 13 years The gross amount outstanding as at 31 December 2006 was £51 million *(2005 £27 9 million)*, which has been netted off by £4 million for the unamortised premium which was paid on inception of the loan The Company expects to borrow £208 million in total by 2017 under this facility at which point cash will be retained by the Company until the credit facility can be repaid in full

At 31 December 2006, the Company had a committed but undrawn liquidity facility of £55 8 million *(2005 £55 8 million)*, and a committed credit facility of £208 million *(2005 £208 million)*

14. Payables and other financial liabilities

	2006 £'000	2005 £'000
Derivative financial liabilities (note 17)	**47,711**	66,209
Other financial liabilities	**117**	125
	47,828	66,334

15. Cash flow statement

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

	2006 £'000	2005 £'000
Profit before tax	**3**	5
Adjustments for		
Fair value losses on other assets	**4,718**	6,993
Interest receivable on mortgage loans	**(33,368)**	(30,438)
Interest expense on borrowings	**22,742**	23,964
Changes in working capital		
Increase in receivables and other financial assets	**(61)**	(4,389)
Decrease/(increase)in prepayments and accrued income	**5**	(8)
Decrease in payables and other financial liabilities	**(8)**	(26)
Proceeds from redemption of loans	**20,289**	13,105
Cash generated from operations	**14,320**	9,206

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:

	2006 £'000	2005 £'000
Cash at bank and in hand	**55**	50

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

(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 very 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

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

(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 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 2006

The credit risk on the Company's bankers, derivative counterparties 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 a committed liquidity facility (£55 8 million) and a committed credit facility (£208 million), which have been sized to cover significant stresses on mortgage cashflows

17. Derivative financial instruments

The Company uses non-hedge derivatives to mitigate risk, as detailed below

			2006			2005
	Contract/ notional amount £'000	**Fair value asset £'000**	**Fair value liability £'000**	Contract/ notional amount £'000	Fair value asset £'000	Fair value liability £'000
Interest rate contracts						
Interest rate swaps	**550,473**	**-**	**(46,674)**	569,611	-	(65,260)
Options	**270,000**	**1,290**	**(1,037)**	384,500	3,089	(949)
	820,473	**1,290**	**(47,711)**	954,111	3,089	(66,209)

The Company also has an obligation to pay £28,000 a quarter until July 2014 in respect of an interest rate option, the purpose of which is to protect the Company from high interest rates on the liquidity facility

During 2004, the Company entered into an interest rate swap agreement, the purpose of which is to protect the Company from interest rate risk in respect of the floating rate notes The notional amount outstanding as at 31 December 2006 was £393 8 million *(2005 £408 million)* and the swap had an expiry date of July 2048 Under the terms of the swap, the Company receives interest at three month LIBOR and pays interest at 5% of the notional amount annually, payable quarterly

During 2004, the Company entered into an inflation rate swap agreement, the purpose of which is to protect the Company from interest rate risk in respect of the index-linked mortgages The notional amount outstanding as at 31 December 2006 was £156 7 million *(2005 £161 6 million)* and the swap had an expiry date of July 2046 Under the terms of the swap, the Company receives interest at 7 28% compounding and pays interest at 4 89% + Limited Price Index compounding, on the reduction of the notional amount annually, payable quarterly

During 2004, the Company entered into two interest rate options, the purpose of which is to protect the Company from very low interest rates, on breaking the interest rate swap up to July 2011

18. 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

	2006 Expense incurred in year £'000	2005 Expense incurred in year £'000
Due to NUERL	**3,335**	1,741

The Company paid fees to NUERL during the course of the year of £1,722,000 *(2005 £1,741,000)* in respect of portfolio administration and cash handling services

(c) Receivable at year end

	2006 £'000	2005 £'000
Due from NUERL	**9,721**	11,329
Due from ERF Trustee (No 4) Ltd	**4,798**	3,129
	14,519	14,458

(d) Key management compensation

Information concerning directors' share interests is given on page 3

Wilmington Trust SP Services (London) Limited fees of £22,130 *(2005 £15,450)* including VAT during the year to 31 December 2006, in respect of structuring and management services

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

(e) Parent entity

The immediate holding company is Equity Release Holdings (Jersey) Limited, a company registered in Jersey

(f) 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