

## **Equity Release Funding (No.5) plc**

**Registered in England No. 5495271 Registered Office: C/O Wilmington Trust SP Services (London) Limited, Tower 42 (Level 11), International Financial Centre, 25 Old Broad Street, London, EC2N 1HQ**

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### **Directors and Officers**

#### **Directors**

R G Baker

J P J Fairrie

Wilmington Trust SP Services (London) Limited (formerly SPV Management Limited)

#### **Secretary**

Wilmington Trust SP Services (London) Limited (formerly SPV Management Limited)

#### **Auditor**

Ernst & Young LLP

1 More London Place

London

SE1 2AF



## Equity Release Funding (No.5) plc

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## **Equity Release Funding (No.5) plc**

### **Directors' report**

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The directors present their annual report and audited financial statements for Equity Release Funding (No.5) plc (the Company) for the period from incorporation on 30 June 2005 to 31 December 2005.

#### **Principal activity**

The Company commenced trading on 11 August 2005 through the purchase of £359 million of Lifetime mortgages loans from Norwich Union Equity Release Limited (NUERL), a wholly owned subsidiary of Norwich Union Life & Pensions Limited. These loans 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 loans, the Company issued a series of mortgage backed loan notes.

The principal activity of the Company is the investment in Lifetime mortgage loans secured by first charges over properties within the United Kingdom and to raise/borrow money and to grant security over its assets. The directors consider that this will continue unchanged into the foreseeable future.

#### **Operations and new business**

Details of the results are given in the income statement on page 10.

#### **Dividends**

The directors do not recommend the payment of a dividend for the period.

#### **Directors**

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

S R B Powell and A M Lassus were appointed as directors of the Company on 29 June 2005 and resigned on 5 July 2005.

R G Baker, J P J Fairrie and SPV Management Limited were appointed as directors of the Company on 5 July 2005.

M Filer was appointed as an alternate director to R G Baker of the Company on 8 July 2005.

On 19 December 2005, SPV Management Limited changed its name to Wilmington Trust SP Services (London) Limited.

#### **Directors' interests**

During the year Equity Release Holdings (No.5) Limited held one share in the Company. Equity Release Holdings (No.5) Limited jointly held one share with R Thomas. The directors had no other interest in the share capital or loan stock of the Company during the year.

## **Equity Release Funding (No.5) plc**

### **Directors' report (continued)**

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#### **Statement of 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 of the 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 for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities.

#### **Directors' statement as to disclosure of information to auditors**

The directors who were members of the board at the time of approving the Directors' report are listed on page 1 of these financial statements. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

#### **Auditors**

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 JUN 2006**

## **Equity Release Funding (No.5) plc**

### **Auditors' report**

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#### **Independent auditors' report to the shareholders of Equity Release Funding (No.5) plc**

We have audited the Company's financial statements for the period ended 31 December 2005 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 9.

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 auditors' 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 are responsible for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union as 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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 2005 and of its profit for the period then ended; and

have been properly prepared in accordance with the Companies Act 1985.

*Ernst & Young LLP*  
Ernst & Young LLP  
Registered Auditor  
London

30 JUN 2006

## **Equity Release Funding (No.5) plc**

### **Accounting policies**

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Equity Release Funding (No.5) plc (the Company), a 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.

#### **(A) Basis of presentation**

This is the Company's first set of full results and they are prepared in accordance with International Financial Reporting Standards (IFRS) accounting policies.

The financial statements have been prepared in accordance with IFRS applicable at 31 December 2005. The International Accounting Standards Board (IASB) issued an amendment to IAS 39, *The Fair Value Option*, in June 2005. Its requirements are applicable for accounting periods beginning on or after 1 January 2006, but the Company has decided to adopt them early and reflect their impact in these financial statements.

In August 2005, the IASB issued IFRS 7, *Financial Instruments: Disclosures*, and amendments to IAS 1, *Capital Disclosures*, and IAS 39/IFRS 4, *Financial Guarantee Contracts*. Their requirements are applicable for accounting periods beginning on or after 1 January 2007 for the first two and, for the third, 1 January 2006. The Company has decided not to adopt any of the standards early in these financial statements but the impact of adopting them is not expected to have a material effect on the results of the Company. IFRS 7 will result in amendments to the disclosure of financial assets and liabilities, whilst the amendments to IAS 1 bring the capital disclosures into line with IFRS 7. The amendments to IAS 39 and IFRS 4 will not affect the Company. In addition, IFRS 6 has been issued during 2005 but is not relevant to the activities of the Company.

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) Segment reporting**

In compliance with IAS 14 Segment Reporting, the Company must report financial information by segment. The Company operates in only one business and geographical segment, therefore segment reporting is not disclosed in the notes to the financial statements.

#### **(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 at fair value through profit and loss (as defined in accounting policy F). 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.

## **Equity Release Funding (No.5) plc**

### **Accounting policies (continued)**

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#### **(E) Impairment of non-financial assets**

Non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

#### **(F) 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, and 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.

Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the assets, at their fair values less transaction costs. Investments classified as trading and other than trading are subsequently carried at fair value. 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. The fair values of investments are based on quoted bid prices or amounts derived from cash flow models.

#### **(G) 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 18.

#### *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 contracts will increase or decrease over their respective lives as a function of maturity dates, interest and the timing of payments.

## **Equity Release Funding (No.5) plc**

### **Accounting policies (continued)**

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#### *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.

#### **(H) 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 statements.

#### **(I) Cash and cash equivalents**

Cash and cash equivalents consist of cash at banks and in hand and deposits held at call with banks.

#### **(J) 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.

#### **(K) 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.

#### **(L) 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.



## **Equity Release Funding (No.5) plc**

### **Accounting policies (continued)**

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#### **(M) 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.5) plc**  
**Income statement**  
**For the period from 30 June 2005 to 31 December 2005**

	Note	For the period from 30 June 2005 to 31 December 2005 £'000
<b>Income</b>		
Net investment income	1 & D	40,218
Other operating income	1	24,100
		<u>64,318</u>
<b>Expenses</b>		
Fee and commission expenses	2	(636)
Other operating costs	2	(59,643)
Finance costs	2	(4,038)
		<u>(64,317)</u>
<b>Profit before tax</b>		1
Tax expense	5 & K	-
<b>Profit for the period</b>		<u><u>1</u></u>

The accounting policies (identified alphabetically) on pages 6 to 9 and notes (identified numerically) on pages 14 to 22 are an integral part of these financial statements.

**Equity Release Funding (No.5) plc**  
**Balance sheet**  
**As at 31 December 2005**

	Note	2005 £'000
<b>Assets</b>		
Loans	H & 6	410,458
Financial investments	F, G & 8	36,548
Receivables and other financial assets	9	7,413
Cash and cash equivalents	I	17
<b>Total assets</b>		<b>454,436</b>
<b>Equity</b>		
Ordinary share capital	M & 10	13
Retained earnings	11	1
<b>Total equity</b>		<b>14</b>
<b>Liabilities</b>		
Borrowings	L & 13	407,384
Payables and other financial liabilities	G & 14	46,994
Other liabilities	15	44
<b>Total liabilities</b>		<b>454,422</b>
<b>Total equity and liabilities</b>		<b>454,436</b>

Approved by the Board on 29 June 2006

*David Hasson*

Wilmington Trust SP Services (London) Limited *Director*

The accounting policies (identified alphabetically) on pages 6 to 9 and notes (identified numerically) on pages 14 to 22 are an integral part of these financial statements.

**Equity Release Funding (No.5) plc**  
**Statement of changes in equity**  
**For the period from 30 June 2005 to 31 December 2005**

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	Note	For the period from 30 June 2005 to 31 December 2005 £'000
Issue of Share Capital		13
Profit for the period		1
<b>Balance at 31 December</b>		<b>14</b>

The accounting policies (identified alphabetically) on pages 6 to 9 and notes (identified numerically) on pages 14 to 22 are an integral part of these financial statements.

**Equity Release Funding (No.5) plc**  
**Cash flow statement**  
**For the period from 30 June 2005 to 31 December 2005**

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

		For the period from 30 June 2005 to 31 December 2005 £'000
	Note	
<b>Cash flows from operating activities</b>		
Cash generated from operations	16(a)	(399,657)
<b>Net cash from operating activities</b>		(399,657)
<b>Cash flows from financing activities</b>		
Proceeds from issue of ordinary shares	10	13
Issue of mortgage backed loan notes	13(b)	401,000
Net drawdown of borrowings	13(b)	1,938
Interest paid on borrowings		(3,277)
<b>Net cash from financing activities</b>		399,674
<b>Net increase in cash and cash equivalents</b>		17
<b>Cash and cash equivalents at 31 December</b>	16(b)	17

The accounting policies (identified alphabetically) on pages 6 to 9 and notes (identified numerically) on pages 14 to 22 are an integral part of these financial statements.

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the period from 30 June 2005 to 31 December 2005**

**1. Details of income**

	For the period from 30 June 2005 to 31 December 2005 £'000
<b>Net investment income</b>	
Interest and similar income	9,947
Other income from investments classified as trading:	
Unrealised losses	(10,360)
Other income from investments classified as other than trading:	
Unrealised gains	40,631
	<u>40,218</u>
<b>Other operating income</b>	
Bank interest	6
Derivative discount income	17,718
Amounts due from NUERL	6,376
	<u>24,100</u>
<b>Total income</b>	<u><u>64,318</u></u>

**2. Details of expenses**

	For the period from 30 June 2005 to 31 December 2005 £'000
<b>Fee and commission expense</b>	636
<b>Other operating expenses</b>	
Audit fees	25
Note issue cost income	3,093
Mortgage premium income	21,206
Derivative premium income	35,319
	<u>59,643</u>
<b>Finance cost</b>	
Interest expense on:	
Securitised mortgage loan notes	3,256
Subordinated debt	487
Other similar charges	295
	<u>4,038</u>
<b>Total expenses</b>	<u><u>64,317</u></u>

**3. Directors' emoluments**

Wilmington Trust SP Services (London) Limited received fees of £5,824 including VAT during the period to 31 December 2005, in respect of structuring and management services.

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the period from 30 June 2005 to 31 December 2005**

**4. Auditors' remuneration**

The total remuneration payable by the Company, including VAT, to its principal auditors, Ernst & Young LLP, in respect of the audit of these financial statements and other services is shown below.

	For the period from 30 June 2005 to 31 December 2005 £'000
Audit services	
Statutory audit	25
Other	112
	<u>137</u>

**5. Tax**

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

**(i) The total tax charge comprises:**

	For the period from 30 June 2005 to 31 December 2005 £'000
<b>Current tax</b>	
Total current tax	-
Total tax charged to income statement (note 5(b))	<u>-</u>

**(ii) The tax charge can be analysed as follows:**

	For the period from 30 June 2005 to 31 December 2005 £'000
United Kingdom tax	<u>-</u>

**(b) Tax reconciliation**

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows:

	For the period from 30 June 2005 to 31 December 2005 £'000
Profit before tax	<u>1</u>
Tax calculated at standard UK corporation tax rate of 19%	-
Total tax charged to income statement (note 5(a))	<u>-</u>

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the period from 30 June 2005 to 31 December 2005**

**6. Loans**

**(a) Carrying amounts**

The carrying amounts of loans at 31 December 2005 were as follows:

	2005 £'000
Lifetime mortgage loans (note 7)	<u>410,458</u>

Of the above total, £410,458,000 is expected to be paid more than one year after the balance sheet date.

**(b) Movements during the period**

	2005 £'000
On purchase	359,045
Amounts redeemed	(3,103)
Interest receivable on mortgages	9,947
Fair value movements	44,569
At 31 December	<u>410,458</u>

**7. Securitised mortgages and related assets**

On 11 August 2005, the Company purchased £359m 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.5) 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**

**(a) Financial investments comprise:**

	2005 £'000
At fair value through profit and loss: trading	
Derivative financial instruments	<u>36,548</u>

Of the above total, £36,548,000 is expected to be recovered more than one year after the balance sheet date.



**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the period from 30 June 2005 to 31 December 2005**

**9. Receivables and other financial assets**

	2005 £'000
Amounts due from NUERL	6,683
Amounts due from Holding company	15
Amounts due from ERF Trustee (No.5) Ltd	715
	<u>7,413</u>

**10. Ordinary share capital**

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

	2005 £
The authorised share capital of the Company at was: 100,000 ordinary shares of £1 each	<u>100,000</u>
The allotted, called up and fully paid share capital of the Company was: 2 ordinary shares of £1 each	2
The allotted, called up and partly paid share capital of the Company at was: 49,998 ordinary shares of £1 each (25p paid per share)	<u>12,500</u> <u>12,502</u>

During the period the company issued 50,000 ordinary shares of £1 each. Two of these shares were paid for in full, while 49,998 of these shares were partly paid for at £0.25 each. The issue of the two fully paid shares occurred on 30th June 2005 and the issue of the 49,998 shares occurred on the 13 July 2005.

**11. Retained earnings**

	2005 £'000
Profit for the period	1
Balance at 31 December	<u>1</u>

**12. Tax liabilities**

**(a) General**

Tax liabilities payable in more than one year are £nil.

**(b) Deferred taxes**

The company had no recognized or unrecognized deferred tax balances at the year end.

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the period from 30 June 2005 to 31 December 2005**

**13. Borrowings**

**(a) Carrying amount**

The following table provides information about the maturity periods and effective interest rates of the Company's borrowings.

Borrowings are considered current if the contractual repricing or maturity dates are within a year.

	Contractual repricing or maturity date over 5 years £'000	2005 Effective interest rate %
Securitised mortgage loan notes	384,937	4.99
Subordinated debt	20,488	6.33
Amounts owed to credit institutions	1,959	4.99
	<b>407,384</b>	

**(b) Movements during the period**

	2005 £'000
<b>Carrying amount</b>	
<b>At 11 August</b>	<b>(401,000)</b>
New borrowings drawn down, net of expenses	(1,938)
Repayment of borrowings	-
Net cash outflow	<b>(402,938)</b>
 Fair Value Movements	 (3,938)
Interest payable	(508)
Movements in the period	<b>(4,446)</b>
 <b>At 31 December</b>	 <b>(407,384)</b>

(c) On 11 August 2005, the Company issued £381 million of mortgage backed loan notes in order to fund the purchase of a mortgage portfolio. These being £315 million of A notes, £43 million of B notes and £23 million of C notes. The balance of these notes at 31 December 2005 is shown at fair value. On the same date, the Company also entered into a subordinated loan agreement with NUERL for £20 million at an interest rate of LIBOR + 1.75%.

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.

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the period from 30 June 2005 to 31 December 2005**

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

The notes are listed on the London Stock Exchange.

<b>£381 million Mortgage Backed Loan Notes</b>	<b>Capital Balance Outstanding At End of Year</b>	<b>Credit Rating (S&amp;P, Moody's , Fitch)</b>	<b>Interest rate to July 2012</b>	<b>Interest rate from July 2012</b>
Class A (£315 m)	£315,000,000	AAA, Aaa, AAA	LIBOR + 0.23%	LIBOR + 0.46%
Class B (£43 m)	£43,000,000	AA, Aa2, AA	LIBOR + 0.35%	LIBOR + 0.70%
Class C (£23 m)	£23,000,000	BBB, Baa2, BBB	LIBOR + 0.90%	LIBOR + 1.80%

The A notes rank in priority to the B notes in point of payment and security. The B notes rank in priority to the C notes in point of payment and security. The A notes are to be redeemed as funds become available from mortgage redemptions. It is intended that these notes will be refinanced prior to July 2012.

The capital balance outstanding on the subordinated loan includes £488,000 of capitalised interest.

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

A Notes	July 2045
B Notes	July 2050
C Notes	July 2050

The Company may, as 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.

At 31 December 2005, the Company had a committed credit facility of £233 million.

#### **14. Payables and other financial liabilities**

	<b>2005</b>
	<b>£'000</b>
Derivative financial liabilities (note 18)	46,908
Other financial liabilities	86
	<b>46,994</b>

Of the above total, £46,908,000 is expected to be paid more than one year after the balance sheet date.

#### **15. Other liabilities**

	<b>2005</b>
	<b>£'000</b>
Other liabilities	44

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**16. Cash flow statement**

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

	2005 £'000
<b>Profit before tax</b>	<b>1</b>
Adjustments for:	
Fair value gains on investments	(30,271)
Interest receivable on mortgage loans	(9,947)
Interest expense on borrowings	3,785
Changes in working capital:	
Increase in receivables and other financial assets	(7,413)
Increase in payables and other financial liabilities	86
Increase in other liabilities	44
Cash paid for purchase of mortgages	(359,045)
Cash received from redemptions	3,103
<b>Cash generated from operations</b>	<b>(399,657)</b>

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:

	2005 £'000
Cash at bank and in hand	17

**17. Risk management policies**

**Management of financial and non-financial risks**

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 and committees are provided by risk area below.

(i) *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 and voluntary prepayment risks. Liquidity is provided to the Company through the credit facility which has been sized to cover significant stresses on mortgage cash flows.

(ii) *Interest rate risk*

The fair value or net asset value of the Company's investments is exposed to potential fluctuations in interest rates. Exposure to interest rate risk is managed through ensuring the interest rate characteristics of assets and liabilities are similar. Where this is not possible, interest rate swaps are utilised to mitigate any residual interest rate risk.

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The matching of the assets and liabilities of the Company is maintained by utilising higher than expected mortgage redemptions to redeem liabilities early. Mortgage redemptions which are significantly higher or lower than expected will result in interest rate risk. This risk has been allowed for in the initial stress testing of the cash flows of the Company.

**(iii) 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.

Mortgages 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. This risk of such credit losses emerging is managed through the lending criteria for the mortgages which include low initial property values. The Company is solely exposed to the UK property market.

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

**(iv) 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.

**18. Derivative financial instruments**

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

	2005		
	Contract/ notional amount £'000	Fair value asset £'000	Fair value liability £'000
<b>Interest rate contracts</b>			
Interest rate swaps	428,500	36,548	(46,908)

During 2005, the Company entered into an interest rate swap agreement, the purpose of which is to protect the Company from interest rate risk in respect of the floating rate notes. The notional amount outstanding as at 31 December 2005 was £382.9 million and the swap had an expiry date of October 2032. 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 2005, the Company entered into an inflation rate swap agreement, the purpose of which is to protect the Company from interest rate risk in respect of the index-linked mortgages. The notional amount outstanding as at 31 December 2005 was £45.6 million and the swap had an expiry date of July 2045. Under the terms of the swap, the Company receives interest at 7.28% compounding and pays interest at 4.89% + Limited Price Index compounding, on the reduction of the notional amount annually, payable quarterly.

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**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

	2005 Expense incurred in period £'000
Due to NUERL	951

(c) Payable at year end

	2005 £'000
Due to NUERL	20,488

(d) Receivable at year end

	2005 £'000
Due from NUERL	6,683
Due from Holding Company	15
Due from ERF Trustee (No.5) Ltd	715
	7,413

(e) Key management compensation

Information concerning directors' share interests is given on page 3.

Wilmington Trust SP Services (London) Limited received fees of £5,824 including VAT during the period to 31 December 2005, 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 (No.5) Limited, a company registered in England.

(g) Ultimate controlling entity

The ultimate controlling entity is Aviva plc, a company registered in England. Its Group financial statements are available on application to the Group Company Secretary, Aviva plc, St. Helen's, 1 Undershaft, London EC3P 3DQ.