

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

Registered in England No. 5495271 Registered Office: C/O Wilmington Trust SP Services (London) Limited, 6 Broad Street Place, Fifth Floor, London, EC2M 7JH

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### **Directors and Officers**

#### **Directors**

M H Filer  
S Masson  
Wilmington Trust SP Services (London) Limited

#### **Secretary**

Wilmington Trust SP Services (London) Limited

#### **Auditor**

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

THURSDAY



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12/06/2008

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## **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 year ended 31 December 2007

#### **Business review**

The principal activity of the Company is 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 2007 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 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 17 to the financial statements.

#### **Key performance indicators ('KPIs')**

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](http://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 (2006 £nil).

#### **Directors**

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

J P J Fairrie resigned as a director of the Company on 20 July 2007.

S Masson was appointed as a director of the Company on 3 September 2007.

R G Baker resigned as a director of the Company on 28 February 2008.

M H Filer and Wilmington Trust SP Services (London) Limited served as directors of the Company throughout the year.

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

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

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#### **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.

#### **Auditors**

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

# Equity Release Funding (No.5) plc

## Independent auditor's report

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

We have audited the financial statements of Equity Release Funding (No 5) 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 20. 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

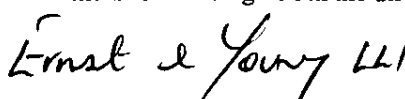
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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  
Registered auditor  
London

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

### **Accounting policies**

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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 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 F 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) 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 D). Interest income is recognised as it accrues, taking into account the effective yield on the investment

#### **(D) 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

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

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

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#### **(E) 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.

##### *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.

#### **(F) 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.

#### **(G) 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 of 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.

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

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

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#### *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

#### **(H) 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.

#### **(I) 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.

#### **(J) 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.

#### **(K) 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 year ended 31 December 2007**

		<b>2007</b>	<b>2006</b>
	<b>Note</b>	<b>£'000</b>	<b>£'000</b>
<b>Income</b>	<b>1</b>		
Net investment income	C	<b>25,406</b>	27,256
Other operating income		<b>(1,052)</b>	(3,460)
		<b>24,354</b>	23,796
<b>Expenses</b>	<b>2</b>		
Fee and commission expenses		<b>(1,605)</b>	(1,624)
Other operating costs		<b>(31)</b>	(50)
Finance costs		<b>(22,715)</b>	(22,119)
		<b>(24,351)</b>	(23,793)
<b>Profit before tax</b>		<b>3</b>	3
Tax charge	I & 5	<b>(1)</b>	-
<b>Profit for the year</b>		<b>2</b>	3

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.5) plc**  
**Balance sheet**  
**As at 31 December 2007**

	Note	2007 £'000	2006 £'000
<b>Assets</b>			
Loans	F & 6	371,673	404,355
Financial investments	D, E & 8	24,129	31,305
Receivables and other financial assets	9	6,926	7,113
Cash and cash equivalents	G	34	5
<b>Total assets</b>		<b>402,762</b>	<b>442,778</b>
<b>Equity</b>			
Ordinary share capital	K & 10	13	13
Retained earnings	11	6	4
<b>Total equity</b>		<b>19</b>	<b>17</b>
<b>Liabilities</b>			
Current tax liabilities	I & 12	1	-
Borrowings	J & 13	386,538	420,494
Payables and other financial liabilities	14	16,171	22,228
Other liabilities	15	33	39
<b>Total liabilities</b>		<b>402,743</b>	<b>442,761</b>
<b>Total equity and liabilities</b>		<b>402,762</b>	<b>442,778</b>

Approved by the Board on



**Sunil Masson**  
**Authorised Signatory**

Wilmington Trust SP Services (London) Limited *Director*

27 May 2008

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.5) plc**  
**Statement of changes in equity**  
**For the year ended 31 December 2007**

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	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
<b>Balance at 1 January</b>	<b>17</b>	<b>14</b>
Profit for the year	<b>2</b>	<b>3</b>
<b>Balance at 31 December</b>	<b>19</b>	<b>17</b>

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.5) plc**  
**Cash flow statement**  
**For the year ended 31 December 2007**

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

	Note	2007 £'000	2006 £'000
<b>Cash flows from operating activities</b>			
Cash used in operations	16(a)	(4,249)	(10,463)
<b>Net cash used in operating activities</b>		<b>(4,249)</b>	<b>(10,463)</b>
<b>Cash flows from financing activities</b>			
Drawdown of borrowings		5,150	10,800
Interest paid on borrowings		(872)	(349)
<b>Net cash from financing activities</b>		<b>4,278</b>	<b>10,451</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>29</b>	<b>(12)</b>
Cash and cash equivalents at 1 January		5	17
<b>Cash and cash equivalents at 31 December</b>	16(b)	<b>34</b>	<b>5</b>

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.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2007**

**1. Details of income**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
<b>Net investment income</b>		
Interest and similar income – from financial instruments designated as other than trading	<b>28,110</b>	26,997
Other income from investments classified as trading		
Unrealised (losses)/gains	<b>(1,013)</b>	19,506
Other income from investments classified as other than trading		
Unrealised losses	<b>(1,691)</b>	(19,247)
	<b>25,406</b>	27,256
<b>Other operating income</b>		
Bank interest	<b>130</b>	68
Reinsurance rebates	<b>5</b>	2
Amounts due to NUER	<b>(1,187)</b>	(3,530)
	<b>(1,052)</b>	(3,460)
<b>Total income</b>	<b>24,354</b>	23,796

**2. Details of expenses**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
<b>Fee and commission expense</b>	<b>1,605</b>	1,624
<b>Other operating expenses</b>		
Audit fees	<b>31</b>	50
<b>Finance cost</b>		
Interest expense on		
Securitised mortgage loan notes	<b>22,242</b>	18,804
Subordinated debt	<b>1,702</b>	1,371
Credit facility	<b>978</b>	473
Interest rate swap	<b>(2,251)</b>	1,463
Inflation rate swap	<b>44</b>	8
	<b>22,715</b>	22,119
<b>Total expenses</b>	<b>24,351</b>	23,793

**3. Directors' emoluments**

Wilmington Trust SP Services (London) Limited received fees of £18,487 (2006 £15,704) including VAT during the year to 31 December 2007, in respect of structuring and management services

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2007 (continued)**

**4. Auditor's remuneration**

	2007 £'000	2006 £'000
Fees for the statutory audit of the Company's financial statements	31	35

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
<b>Current tax</b>		
For the year	1	-
Total tax charged to the income statement (note 5(b))	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	3	3
Tax calculated at standard UK corporation tax rate of 20% (2006 19%)	1	-
Total tax charged to the income statement (note 5(a))	1	-

**6. Loans**

**Carrying amounts**

The carrying amounts at 31 December were as follows

	2007 £'000	2006 £'000
Lifetime mortgage loans (note 7)	371,673	404,355

Of the above total, £371,673,000 (2006 £404,355,000) 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

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2007 (continued)**

The change in fair value of mortgage loans during the year attributable to a change in credit risk was £40,240,000 (2006 £nil) The cumulative change attributable to changes in credit risk to 31 December 2007 was £40,240,000 (2006 £nil)

**7. Lifetime mortgages and related assets**

On 11 August 2005, the Company purchased £359 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 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 NUER. 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.

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. Financial investments**

Financial investments comprise:

	2007 £'000	2006 £'000
<b>At fair value through profit and loss: trading</b>		
Derivative financial instruments (note 18)	24,129	31,305

Of the above total, £24,129,000 (2006 £31,305,000) is expected to be paid more than one year after the balance sheet date.

**9. Receivables and other financial assets**

	2007 £'000	2006 £'000
Amounts due from NUER	1,659	2,855
Amounts due from Equity Release Holdings (No 5) Limited	15	15
Amounts due from ERF Trustee (No 5) Limited	5,188	4,243
Other debtors	64	-
	6,926	7,113

Of the above total £1,674,000 (2006 £2,860,000) 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 year ended 31 December 2007 (continued)**

**10. 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 100,000 ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
The allotted, called up and fully paid share capital of the Company was 2 ordinary shares of £1 each	<u>2</u>	<u>2</u>
The allotted, called up and partly paid share capital of the Company was 49,998 ordinary shares of £1 each (25p paid per share)	<u>12,500</u> <u>12,502</u>	<u>12,500</u> <u>12,502</u>

**11. Retained earnings**

	2007 £'000	2006 £'000
At 1 January	4	1
Profit for the year	2	3
At 31 December	<u>6</u>	<u>4</u>

**12. 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)

**13. Borrowings**

**(a) Carrying amount**

	2007 £'000	2006 £'000
Securitised mortgage loan notes	344,839	385,753
Subordinated debt	23,560	21,858
Amounts owed to credit institutions	18,139	12,883
	<u>386,538</u>	<u>420,494</u>

The carrying amount of the above borrowings that are stated at amortised cost is £41,699,000 (2006 £34,741,000) The relevant fair value of these borrowings is £26,554,000 (2006 £35,748,000)

The change in fair value of mortgage loan notes during the year attributable to a change in credit risk was £36,464,000 (2006 £nil) The cumulative change attributable to changes in credit risk to 31 December 2007 was £36,464,000 (2006 £nil)



**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2007 (continued)**

**(b) Loan notes and other borrowings**

**(i) Loan notes**

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 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.

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.

<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.

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

**(ii) Other borrowings**

On 11 August 2005, the Company also entered into a subordinated loan agreement with NUER for £20 million at an interest rate of LIBOR + 1.75%. The capital balance outstanding on the subordinated loan includes £3,560,000 (2006: £1,858,000) of accumulated interest.

At 31 December 2007, the Company had a committed credit facility of £227 million (2006: £227 million).

**14. Payables and other financial liabilities**

	<b>2007 £'000</b>	<b>2006 £'000</b>
Derivative financial liabilities (note 18)	15,997	22,159
Amounts due to NUER	129	-
Other financial liabilities	45	69
	<b>16,171</b>	<b>22,228</b>

Of the above total, £15,997,000 (2006: £22,159,000) is expected to be paid more than one year after the balance sheet date.

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2007 (continued)**

**15. Other liabilities**

	2007 £'000	2006 £'000
Other liabilities	33	39

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

**16. Cash flow statement**

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

	2007 £'000	2006 £'000
Profit before tax	3	3
Adjustments for		
Fair value losses/(gains) on investments	2,704	(259)
Interest receivable on mortgage loans	(28,110)	(26,999)
Interest expense on borrowings	24,922	20,648
Changes in working capital		
Decrease in receivables and other financial assets	187	300
Increase/(decrease) in payables and other financial liabilities	105	(17)
Decrease in other liabilities	(6)	(5)
Interest paid on borrowings	(22,242)	(18,804)
Proceeds from redemption of mortgages	18,188	14,670
<b>Cash used in operations</b>	<b>(4,249)</b>	<b>(10,463)</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:

	2007 £'000	2006 £'000
Cash at bank and in hand	34	5

**17. 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

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2007 (continued)**

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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 is solely exposed to the UK property market.

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2007 (continued)**

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. The Company has a committed 364 day credit facility of £227 million (2006 £70 million) which has been sized to cover significant stresses on mortgage cash flows

**18. Derivative financial instruments**

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

	<b>2007</b>			<b>2006</b>		
	<b>Contract/ notional amount</b>	<b>Fair value asset</b>	<b>Fair value liability</b>	<b>Contract/ notional amount</b>	<b>Fair value asset</b>	<b>Fair value liability</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Interest rate contracts</b>						
Interest rate swaps	<b>447,400</b>	<b>24,129</b>	<b>(15,997)</b>	<b>437,639</b>	<b>31,305</b>	<b>(22,159)</b>

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

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Within one year	<b>(2,900)</b>	<b>1,440</b>
Between one and five years	<b>1,300</b>	<b>5,750</b>
After five years	<b>48,700</b>	<b>32,540</b>
	<b>47,100</b>	<b>39,730</b>

**(b) Future commitments**

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 and credit facility. The notional amount outstanding as at 31 December 2007 was £394.5 million (2006 £394.5 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 additional interest rate swap agreement, the purpose of which is to allow the company to vary the notional (within specified bands) on the above interest rate swap at no cost or gain. The above notional was increased by £10.7 million as at 31 December 2007 (2006 £0.8 million).

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 2007 was £42.2 million (2006 £43.9 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.

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2007 (continued)**

Fair value asset has been disclosed as "Derivative financial instruments" in note 8 under financial investments  
Fair value liability has been disclosed as "Derivative financial liabilities" in note 14 under payables and other financial liabilities

**19. Capital**

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

The Company manages IFRS shareholders' equity of £19,000 (2006 £17,000) as capital

The Company is not subject to any externally imposed capital requirements

**20. 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
Payable to ERF Trustee (No 5) Limited	1,224	1,210
Payable to NUER	4,111	6,108
	<b>5,335</b>	<b>7,318</b>

The Company paid fees to NUER during the course of the year of £1,222,000 (2006 £1,207,000) in respect of portfolio administration and cash handling services

(c) Income receivable from related parties

	2007 Income received in year £'000	2006 Income received in year £'000
Receivable from ERF Trustee (No 5) Limited	130	68

(d) Payable at year end

	2007 £'000	2006 £'000
Due to NUER	<b>23,689</b>	<b>21,858</b>

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2007 (continued)**

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**(e) Receivable at year end**

	<b>2007</b>	2006
	<b>£'000</b>	£ 000
Due from NUER	<b>1,659</b>	2,855
Due from Equity Release Holdings (No 5) Limited	<b>15</b>	15
Due from ERF Trustee (No 5) Limited	<b>5,188</b>	4,243
	<b>6,862</b>	7,113

**(f) Key management compensation**

Wilmington Trust SP Services (London) Limited received fees of £18,487 (2006 £15,704) 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

**(g) Parent entity**

The immediate holding company is Equity Release Holdings (No 5) Limited, a company registered in England

**(h) Ultimate controlling entity**

The ultimate controlling entity is Aviva plc, a company registered in England. Its Group financial statements are available on [www.aviva.com](http://www.aviva.com) or by application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ