Company Registration Number: 5495271

EQUITY RELEASE FUNDING (NO.5) PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2008

Directors and Officers

Directors

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

Secretary

Wilmington Trust SP Services (London) Limited

Auditor

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

Contents

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 2008.

Directors

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

R G Baker resigned as a director of the Company on 27 February 2008.

M H Filer was appointed as a director of the Company on 28 February 2008.

Business review, principal activities and future outlook

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

The main assets of the Company consist of a 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.

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 and the Company's entitlement of 0.01% of interest accruing on the mortgages, will be payable to the originator, Aviva Equity Release UK Limited (UKER; formerly Norwich Union Equity Release Limited), a wholly owned subsidiary of Aviva Life & Pensions UK Limited (formerly Norwich Union Life & Pensions Limited) in the form of deferred consideration. Any cash shortfalls will be met in the first instance out of this deferred consideration and ultimately, should shortfalls continue, will be borne by the noteholders.

Notional gains and losses are recorded in the income statement as other operating income or losses, as appropriate.

In the balance sheet, notional gains, where the cumulative income of the company exceeds the expenditure, are recorded as provisions. Notional losses, where the cumulative income of the company is less than the expenditure, are recorded as amounts due from UKER to the extent that the losses are considered to arise from fair valuation modeling methodology differences which the directors consider will reverse in the future. At the point where notional losses reflect amounts that will result in reduced amounts payable to the noteholders, such losses are offset against the liabilities to noteholders which are recorded in Borrowings. UKER has no obligation to fund such losses.

Prevailing market conditions have resulted in large Fair Value movements in the mortgage, loan note and derivative balances, which do not off-set. In accordance with the accounting policy for deferred consideration, the resultant net fair value loss of £35.5 million has been recorded as a receivable since these movements are expected to reverse over time. There is also an increased risk of sustained underperformance in the HPI with the resultant increase in the likelihood that the mortgage debt will exceed the proceeds of the property sale at the date of redemption. However, due to the relatively low loan to values of the mortgages, where property price risk remains, there would need to be a decrease in house price values which is significantly lower than worst case market forecasts for house price deflation. This would need to be coupled with an unexpected rise in short term mortality and morbidity rates for the Company to make significant losses on negative equity.

Principal risks and uncertainties

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')

There was negative net investment income for the year of £10.9 million *(2007: £25.4 million).*

Finance costs and fee and commission expenses for the year are £24.8 million *(2007: £24.4 million).*

Profit after tax for the year is £1.0 thousand *(2007: £2.0 thousand).*

Going concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Financial position and performance

The financial position of the Company at 31 December 2008 is shown in the balance sheet on page 12, with the results shown in the income statement on page 11 and the cash flow statement on page 14.

Financial instruments

The business of the Company includes use of financial instruments. Details of the Company's risk management objectives and policies and exposures to risk relating to financial instruments are set out in note 17 to the financial statements.

Dividend

The directors do not recommend the payment of a dividend for the year *(2007: £nil)*.

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 his report, of which the auditor is unaware. Each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

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 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 can 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.

By order of the Board

Wilmington Trust SP Services (London) Limited *Secretary* *17 July 2009*

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 for the year ended 31 December 2008 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 7 to 10.

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 2008 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

21 July 2009

The Company, a public limited company incorporated and domiciled in the United Kingdom (UK), invests in lifetime mortgage loans.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(A) Basis of presentation

The financial statements have been prepared in accordance with IFRS applicable at 31 December 2008. The financial statements are prepared on the historical cost basis, except for mortgage loans and those financial instruments and financial liabilities that have been measured at fair value.

In October 2008, the IASB issued (and the EU subsequently endorsed) amendments to IAS 39, *Financial Instruments: Recognition and measurement* and IFRS 7, *Financial Instruments: Disclosures on reclassifying assets.* The amendments to IAS 39 regarding reclassification do not apply to the categories of investments held by the Company.

During 2007 and 2008, the IASB issued IAS 1, *Presentation of Financial Statements : A Revised Presentation*, and amendments to IFRS 1, *First Time Adoption of IFRS*, IFRS 2, *Share-Based Payment*, IAS 1, IAS 23, *Borrowing Costs*, IAS 27, *Consolidated and Separate Financial Statements*, IAS 32, *Financial Instruments: Presentation*, and IAS 39, and the results of its annual improvements project. It also issued revised versions of IFRS 1 and IFRS 3, *Business Combinations*, as well as further amendments to IAS 27, none of which has yet been endorsed by the EU. These are not applicable for the current accounting period and, on adoption, they will not have any material impact on the Company's financial reporting.

IFRIC interpretation 11, *IFRS 2 Group Treasury Share transactions* and interpretation 14, IAS 19 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction*, were issued and became effective during 2008. There has been no impact on the Company's financial reporting.

IFRIC interpretation 12, *Service Concession Arrangements* and interpretation 13, *Customer Loyalty Programmes*, were issued during 2007 but are not applicable for the current accounting period. In addition, IFRIC interpretation 15, *Agreements for the Construction of Real Estate*, interpretation 16, *Hedges of a Net Investment in a Foreign Operation*, and interpretation 17, *Distributions of Non-cash Assets to Owners*, were issued during 2008. They have not yet been endorsed by the EU and none of them are applicable for the current accounting period. On adoption, none of these interpretations will have any impact on the Company's financial reporting.

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

(B) Use of estimates

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

The table below sets out those items that are considered particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy.

Item	Accounting policy
Financial instruments	E
Derivative financial instruments	F
Loans	G
Deferred consideration	I
Borrowings	K
Payables and other financial liabilities	M

(C) Interest and similar income

Interest and similar income consists of interest receivable for the year. Interest income is recognised as it accrues, taking into account the effective yield on the investment

(D) Other operating income

Other operating income consists of deferred consideration, for which further details are given in policy I.

(E) Financial instruments

The Company classifies the lifetime mortgages, the associated liabilities and derivative financial instruments at 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.

Instruments carried at fair value are measured using a fair value hierarchy, described in note 6, with values based on amounts derived from cash flow models which 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. The financial statements are prepared on the historical cost basis, except for mortgage loans and those financial instruments and financial liabilities that have been measured at fair value.

All of the Company's derivative contracts are over-the-counter (OTC). OTC derivative contracts are individually negotiated between contracting parties and include options, 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 fair value of these transactions. These amounts are disclosed in note 18.

Swaps

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 or inflation basis on a specified notional amount. Most 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 swap contracts will increase or decrease over their respective lives as a function of maturity dates, interest rates, and the timing of payments.

Options

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

(G) Loans

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

The fair values are estimated using discounted cash flow forecasts. These include a risk adjusted discount rate to reflect the risks associated with these products.

To the extent that a loan is uncollectible, it is written off as impaired. Subsequent recoveries are credited to the income statement.

(H) Cash flow statement

Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks 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. For the purposes of the cash flow statement, cash and cash equivalents also include bank overdrafts, which are included within payables and other financial liabilities on the balance sheet.

Operating cash flows

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

(I) Deferred consideration

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 and the Company's entitlement of 0.01% of interest accruing on the mortgages, will be payable to the originator, UKER, in the form of deferred consideration. Any cash shortfalls will be met in the first instance out of this deferred consideration and ultimately, should shortfalls continue, will be borne by the noteholders.

In the balance sheet, notional gains, where the cumulative income of the company exceeds the expenditure, are recorded as provisions. Notional losses, where the cumulative income of the company is less than the expenditure, are recorded as amounts due from UKER to the extent that the losses are considered to arise from fair valuation modeling methodology differences which the directors consider will reverse in the future. At the point where notional losses reflect amounts that will result in reduced amounts payable to the noteholders, such losses are offset against the liabilities to noteholders which are recorded in Borrowings. UKER has no obligation to fund such losses.

Notional gains and losses are recorded in the income statement as other operating income or losses, as appropriate.

(J) Income taxes

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

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

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

(K) Borrowings

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

Borrowings that provide liquidity only are valued at amortised cost.

The fair values are estimated using discounted cash flow forecasts. These include a risk adjusted discount rate to reflect the risks associated with these products.

The effective interest rate method is used for loans held at amortised cost, which consist of amounts owed to credit institutions. To the extent that a loan is uncollectible, it is written off as impaired. Subsequent recoveries are credited to the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

All borrowing costs are expensed as they are incurred.

(L) Share capital

Equity instruments

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

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

(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.

(M) Payables and other financial liabilities

Payables mainly comprise derivatives, for which the accounting policy is described in policy F above.

Equity Release Funding (No.5) plc
Income statement
For the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Income			
Interest and similar income	1 & C	**28,965**	28,110
Losses on financial instruments	1 & E	**(39,835)**	(2,704)
Other operating income	1 & D	**35,695**	(1,052)
		24,825	24,354
Expenses			
Fee and commission expense	2	**(1,595)**	(1,605)
Other operating expenses	2	**(28)**	(31)
Finance costs	2	**(23,200)**	(22,715)
		(24,823)	(24,351)
Profit before tax		**2**	3
Tax charge	J & 5	**(1)**	(1)
Profit after tax		**1**	2

The accounting policies (identified alphabetically) on pages 7 to 10 and notes (identified numerically) on pages 15 to 25 are an integral part of these financial statements.

Equity Release Funding (No.5) plc
Balance sheet
As at 31 December 2008

	Note	2008 £'000	2007 £'000
Assets			
Loans	G & 6	**362,801**	371,673
Derivative Assets	E, F & 8	**56,044**	24,129
Receivables and other financial assets	9	**42,673**	6,926
Prepayments and accrued income		**4**	-
Cash at bank and in hand	H	**73**	34
Total assets		**461,595**	402,762
Equity			
Ordinary share capital	L & 10	**13**	13
Retained earnings	11	**7**	6
Total equity		**20**	19
Liabilities			
Current tax	J & 12	**1**	1
Borrowings	K & 13	**362,958**	386,538
Payables and other financial liabilities	F, M & 14	**98,616**	16,204
Total liabilities		**461,575**	402,743
Total equity and liabilities		**461,595**	402,762

Approved by the Board on 17 July 2009

Wilmington Trust SP Services (London) Limited *Director*

The accounting policies (identified alphabetically) on pages 7 to 10 and notes (identified numerically) on pages 15 to 25 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 2008

	2008 £'000	2007 £'000
Balance at 1 January	**19**	17
Profit for the year	**1**	2
Balance at 31 December	**20**	19

The accounting policies (identified alphabetically) on pages 7 to 10 and notes (identified numerically) on pages 15 to 25 are an integral part of these financial statements.

Equity Release Funding (No.5) plc
Cash flow statement
For the year ended 31 December 2008

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

	Note	2008 £'000	2007 £'000
Cash flows from operating activities			
Cash used in operations	15(a)	(3,936)	(5,121)
Tax paid		-	-
Net cash used in operating activities		(3,936)	(5,121)
Cash flows from financing activities			
Drawdown of borrowings		3,975	5,150
Net cash from financing activities		3,975	5,150
Net increase in cash and cash equivalents		39	29
Cash and cash equivalents at 1 January		34	5
Cash and cash equivalents at 31 December	15(b)	73	34

The accounting policies (identified alphabetically) on pages 7 to 10 and notes (identified numerically) on pages 15 to 25 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 2008

1. Details of income

	2008 £'000	2007 £'000
Interest and similar income	**28,965**	28,110
Financial instruments		
Unrealised (losses)/gains on derivative contracts	**(50,510)**	(1,013)
Unrealised losses on mortgages	**(18,803)**	(42,604)
Unrealised gains on loan notes	**29,478**	40,913
	(39,835)	(2,704)
Other operating income		
Bank interest	**157**	130
Reinsurance rebates	**3**	5
Other	**9**	-
Change in deferred consideration	**35,526**	(1,187)
	35,695	(1,052)
Total income	**24,825**	24,354

2. Details of expenses

	2008 £'000	2007 £'000
Fee and commission expense	**1,595**	1,605
Other operating expenses		
Audit fees	**28**	31
Finance cost		
Interest expense on:		
Securitised mortgage loan notes	**23,676**	22,242
Subordinated debt	**1,865**	1,702
Credit facility	**1,261**	978
Interest rate swap	**(3,721)**	(2,251)
Inflation rate swap	**119**	44
	23,200	22,715
Total expenses	**24,823**	24,351

3. Directors' emoluments

Wilmington Trust SP Services (London) Limited received fees of £15,123 *(2007: £18,487)* including VAT during the year to 31 December 2008, in respect of structuring and management services.

4. Auditor's remuneration

	2008 £'000	2007 £'000
Fees for the statutory audit of the Company's financial statements for the year	**20**	31

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:

	2008 £'000	2007 £'000
Current tax		
For this year	**1**	1
Total tax charged in the income statement (note 5(b))	**1**	1

With effect from 1 April 2008 the standard UK corporation tax rate applicable to small companies changed from 20% to 21%.

(b) Tax reconciliation

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

	2008 £'000	2007 £'000
Net profit before tax	**2**	3
Tax calculated at standard UK corporation tax rate of 20.75% *(2007: 20%)*	**1**	1
Tax charge for the period (note 5(a))	**1**	1

6. Loans

(a) Carrying amounts

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

	2008 £'000	2007 £'000
Lifetime mortgage loans (note 7)	**362,801**	371,673

Of the above total, £347.4 million *(2007: £371.7 million)* 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 and significant levels of early redemption are not anticipated.

The change in fair value of mortgage loans during the year attributable to a change in credit risk was a loss of £38.4 million *(2007:* loss of *£40.2 million).*

(b) Fair value methodology

For instruments carried at fair value, we have categorised the measurement basis into a 'fair value hierarchy' as follows:

Quoted market prices in active markets – ('Level 1')

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets. An active market is one in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Examples are listed equities in active markets, listed debt securities in active markets and quoted unit trusts in active markets.

Internal models with significant observable market parameters – ('Level 2')

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

- Quoted prices for similar (i.e. not identical) assets in active markets;
- Quoted prices for identical or similar assets in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly.
- Inputs other than quoted prices that are observable for the asset (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market-corroborated inputs).

An example of this is mortgage assets measured using discounted cash flow models based on market observable gilt yields.

Internal models with significant unobservable market parameters – ('Level 3')

Inputs to Level 3 fair values are unobservable inputs for the asset. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the asset. Examples are certain private equity investments and private placements.

The Company's instruments that are fair valued are categorised at level 2 and level 3.

7. Lifetime mortgages and related assets

On 11 August 2005, the Company purchased £359.0 million of mortgage assets at market value from UKER. 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 loan notes. Under the terms of this arrangement, the rights of the providers of the finance for this transaction are limited to the mortgage assets purchased and any related income generated by the portfolio, and are without recourse to UKER. 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.

UKER 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 UKER in the form of deferred consideration. UKER administers the mortgage portfolio.

8. Financial instruments

Financial instruments comprise:

	2008	2007
	£'000	£'000
At fair value through profit and loss: trading		
Derivative financial instruments (note 18)	**56,044**	24,129

Of the above total, £56.0 million *(2007: £24.1 million)* is expected to be recovered more than one year after the balance sheet date.

9. Receivables and other financial assets

	2008	2007
	£'000	£'000
Amounts due from UKER	**37,185**	1,659
Amounts due from Equity Release Holdings (No.5) Limited	**15**	15
Amounts due from ERF Trustee (No.5) Limited	**5,042**	5,188
Other debtors	**431**	64
	42,673	6,926

Amounts due from UKER represent differences in fair value movements on financial instruments. Prevailing market conditions have resulted in large fair value movements in the mortgage, loan note and derivative balances which do not off-set. In accordance with the accounting policy for deferred consideration, (policy J), the resultant cumulative net fair value loss of £69.5 million has been recorded as a receivable since these movements are expected to reverse over time. UKER has no obligation to fund such losses.

Of the above total £37.2 million *(2007: £1.7 million)* 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:

	2008	2007
	£	£
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

	2008 £'000	2007 £'000
At 1 January	6	4
Profit for the year	1	2
At 31 December	**7**	6

12. Tax liabilities

(a) General

Current tax liabilities payable in more than one year are £nil *(2007: £nil).*

(b) Deferred tax

The Company had no recognised or unrecognised deferred tax balances at the year end *(2007: £nil).*

13. Borrowings

(a) Carrying amount

	2008 £'000	2007 £'000
Securitised mortgage loan notes	**315,362**	344,839
Subordinated debt	**25,425**	23,560
Amounts owed to credit institutions	**22,171**	18,139
	362,958	386,538

The carrying amount of the above borrowings that are stated at amortised cost is £47.6 million *(2007: £41.7 million).* The relevant fair value of these borrowings is £28.9 million *(2007: £26.6 million).*

The change in fair value of mortgage loan notes during the year attributable to a change in credit risk was a gain of £16.4 million *(2007: gain of £36.5 million).*

(b) Loan notes and other borrowings

(i) Loan notes

On 11 August 2005, the Company issued £381.0 million of mortgage backed loan notes (class A, B and C) in order to fund the purchase of a mortgage portfolio. The balance of these notes at 31 December 2008 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 UKER.

All classes of loan note were issued at par.

Interest on the notes is payable quarterly in arrears. Interest payable on the notes, which are listed on the London Stock Exchange, is as follows:

£381 million mortgage backed loan notes	Capital balance outstanding at end of year Total £381.0m	Credit rating (S&P, Moody's, Fitch)	Interest rate to July 2012	Interest rate from July 2012
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 loan notes are to be redeemed as funds become available from mortgage redemptions, unless the loan notes are refinanced prior to July 2012.

Unless previously redeemed in full, each class of notes will mature 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 UKER for £20.0 million at an interest rate of LIBOR + 1.75%. The capital balance outstanding on the subordinated loan includes £5.4 million *(2007: £3.6 million)* of accumulated interest.

During 2005, the Company entered into a credit facility agreement, the purpose of which is to provide the Company with a committed cash facility for the years when mortgage redemptions are not expected to be sufficient to pay expenses of the Company and interest on the mortgage loan notes. The gross amount outstanding as at 31 December 2008 was £22.2 million *(2007: £18.1 million)* and the committed credit facility was £212.0 million *(2007: £219.6 million)*.

14. Payables and other financial liabilities

	2008	2007 Restated
	£'000	£'000
Derivative financial liabilities (note 18)	**98,421**	15,997
Amounts due to UKER	**144**	129
Other financial liabilities	**51**	78
	98,616	16,204

Of the above total, £98.4 million *(2007: £16.0 million)* is expected to be paid more than one year after the balance sheet date.

Other financial liabilities due at 2007 year end have been restated to include other liabilities, which were previously disclosed separately.

15. Cash flow statement

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

	2008 £'000	2007 £'000
Profit before tax	**2**	3
Adjustments for:		
Fair value losses on mortgages	**18,803**	42,604
Fair value gains on loan notes	**(29,478)**	(40,913)
Fair value losses on derivatives	**50,510**	1,013
Interest receivable on mortgage loans	**(28,965)**	(28,110)
Changes in working capital:		
(Increase)/decrease in receivables and other financial assets	**(35,747)**	187
Increase in prepayments and accrued income	**(4)**	-
(Decrease)/increase in payables and other financial liabilities	**(13)**	99
Increase in interest on borrowings	**1,923**	1,808
Proceeds from redemption of mortgages	**19,033**	18,188
Cash used in operations	**(3,936)**	(5,121)

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:

	2008 £'000	2007 £'000
Cash at bank and in hand	**73**	34

16. Capital

In managing its capital, the Company seeks to retain financial flexibility by maintaining strong liquidity. Liquidity is provided to the company through a committed credit facility of £212.0 million, which have been sized to cover significant stresses on mortgage cashflows. The Company is not subject to any externally imposed capital requirements.

The Company manages IFRS shareholders' equity of £20,000 *(2007: £19,000)* as capital.

The Company is not subject to any externally imposed capital requirements.

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

The Company has established a number of policies focusing on the management of financial and non-financial risks. Further details on 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 with any excess or shortfall of income over expenditure reported in the balance sheet as described in the accounting policy I Accordingly, the impact on the Company of changes in economic factors and assumptions would be reflected in a change in the value of deferred consideration rather than profit. Consequently, the Company has not provided any detailed sensitivity analysis as required by IFRS 7 and the impact of the risks referred to below is restricted to the balance sheet of the Company. Exposure to these risks is borne by the noteholders and other creditors of the company.

(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 the property sale at the date of redemption.

The level of HPI is monitored and the impact of exposure to adverse movements in the 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. There would need to be a decrease in house price values which is significantly lower than worst case market forecasts for house price deflation. This would need to be coupled with an unexpected rise in short term mortality and morbidity rates for the Company to make significant losses on negative equity. Exposure to property price risk is borne by the noteholders and other creditors of the company.

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

The HPI adjusted Loan to Value (LTV) percentage of the mortgage Interest Bearing Borrowings are as follows:

	Age Under 75	75-79	80-84	85-89	90-94	95-99	Total
LTV	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Up to 40%	264.5	37.4	14.0	2.5	0.6	0.1	319.1
Up to 50%	22.1	25.2	9.2	1.6	0.5	-	58.6
Up to 60%	2.7	4.5	6.4	2.0	0.2	0.1	15.9
Up to 70%	0.1	0.1	2.5	0.9	0.2	0.3	4.1
Up to 80%	-	-	-	0.2	-	-	0.2
Total	289.4	67.2	32.1	7.2	1.5	0.5	397.9

(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) Derivatives risk

Derivatives are used within policy guidelines agreed by the Board of Directors of Aviva plc and overseen by the Aviva Group Derivatives Approvals Committee, which monitors implementation of the policy, exposure levels and approves large or complex transactions. Derivatives are used for risk hedging purposes and speculative activity is prohibited. OTC derivative contracts are entered into only with approved counterparties, thereby reducing the risk of credit loss.

(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.

(c) Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations, or changes to the market value of assets caused by changed perceptions of the credit worthiness of such counterparties. The credit ratings of financial institutions to which the Company is exposed are monitored and if these fall below a certain threshold collateralisation or other risk mitigation techniques are implemented.

The carrying amount of assets included on the balance sheet represents the maximum credit exposure of the Company at the balance sheet date.

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments, if the cash flows from the mortgages differ from those expected. Such differences would arise from mortality, morbidity and voluntary prepayment risks. The Company has a committed credit facility of £212.0 million *(2007: £219.6 million)* which has been sized to cover significant stresses on mortgage cash flows.

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

				2008
	Within 1 year £m	**1-5 years £m**	**Over 5 years £m**	**No contractual maturity £m**
Liabilities				
Borrowings	**8.5**	**58.2**	**612.9**	**121.8**
Payables and other financial liabilities	**6.7**	**17.5**	**29.6**	**-**

				2007
	Within 1 year £m	1-5 years £m	Over 5 years £m	No contractual maturity £m
Liabilities				
Borrowings	22.2	80.1	680.3	160.1
Payables and other financial liabilities	(2.9)	1.3	48.7	-

The carrying value of the loan notes is £28.8 million higher than the anticipated payment at maturity.

18. Derivative financial instruments

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 loan notes and credit facility. The notional amount outstanding as at 31 December 2008 was £415.4 million *(2007: £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, payable quarterly.

During 2005, the Company entered into an additional interest rate swap agreement (option), 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 decreased by £12.5 million as at 31 December 2008 *(2007: £6.3 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 2008 was £40.0 million *(2007: £42.2 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.

The fair value asset has been disclosed under "Derivative financial instruments" in note 8. The fair value liability has been disclosed under "Derivative financial liabilities" in note 14.

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

			2008			2007
	Contract/ notional amount	**Fair value asset**	**Fair value liability**	Contract/ notional amount Restated	Fair value asset	Fair value liability
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Interest rate contracts						
Interest rate swap	**415,365**	**-**	**(90,613)**	394,500	-	(9,309)
Option	**402,863**	**56,044**	**-**	398,888	24,129	-
Inflation rate swap	**40,037**	**-**	**(7,808)**	42,182	-	(6,688)
	858,265	**56,044**	**(98,421)**	835,570	24,129	(15,997)

Contract/notional amounts for 2007 year end have been restated as the interest rate swap included an error.

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

	2008	2007
	Expense incurred in year	Expense incurred in year
	£'000	£'000
ERF Trustee (No. 5) Limited	**2**	2
UKER	**3,104**	4,111
	3,106	4,113

The Company paid fees to UKER during the course of the year of £1.2 million *(2007: £1.2 million)* in respect of portfolio administration and cash handling services.

(c) Income receivable from related parties

	2008 Income received in year £'000	2007 Income received in year £'000
ERF Trustee (No.5) Limited	**156**	130

(d) Payable at year end

	2008 £'000	2007 £'000
UKER	**25,569**	23,689

(e) Receivable at year end

	2008 £'000	2007 £'000
Equity Release Holdings (No.5) Limited	**15**	15
ERF Trustee (No. 5) Limited	**5,042**	5,188
	5,057	5,203

(f) Key management compensation

Wilmington Trust SP Services (London) Limited received fees of £15,123 *(2007: £18,487)* including VAT during the year to 31 December 2008, 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 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.