

## **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**

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

#### **Company Secretary**

Wilmington Trust SP Services (London) Limited

#### **Auditor**

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



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

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

Registered in England No. 5495271

## **Directors' report**

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The directors present their annual report and financial statements for Equity Release Funding (No 5) plc (the Company) for the year ended 31 December 2009

### **Directors**

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

### **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). Any cash shortfalls will ultimately be borne by the noteholders.

There is an increased risk of sustained underperformance in the House Price Index (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, there would need to be a decrease in house price values which is significantly lower than worst case market forecasts for house price deflation, 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')**

Income for the year is £23.7 million (2008: £24.8 million)

Finance costs and fee and commission expenses for the year are £23.7 million (2008: £24.8 million)

Profit after tax for the year is £1,000 (2008: £1,000)

### **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 2009 is shown in the statement of financial position on page 12, with the results shown in the income statement on page 11 and the statement of cash flows on page 14.

### **Financial instruments**

The business of the Company includes the 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.

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

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

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#### **Dividend**

The directors do not recommend the payment of a dividend for the year (2008 £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

#### **Reappointment of the auditor**

In accordance with section 489 of the Companies Act 2006, a resolution is to be proposed at the forth coming Annual General Meeting to reappoint Ernst & Young LLP as auditor of the company. A resolution will also be proposed authorising the directors to determine the auditor's remuneration

#### **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

#### **Internal controls over financial reporting**

A Group Reporting Manual, including International Financial Reporting Standards (IFRS), has been defined and rolled out across the Group. A Financial Reporting Control Framework (FRCF) is in place across the Group. FRCF relates to the preparation of reliable financial reporting and preparation of local financial statements in accordance with IFRS. FRCF also allows compliance with the requirements of the Sarbanes-Oxley Act 2002

The FRCF process follows a risk based approach, with management identification, assessment (documentation and testing), remediation as required, reporting and certification over key financial reporting related controls. Management quality assurance procedures over the application of the FRCF process are signed off by the business unit and regional Chief Executives and Chief Financial Officers

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

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

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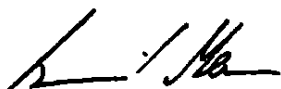
#### **Statement of directors' responsibilities**

The directors are required to prepare financial statements for each accounting period that comply with the relevant provisions of the Companies Act 2006 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 adequate accounting records which can disclose with reasonable accuracy, the financial position of the Company at that time. 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



**Sunil Masson**  
**Wilmington Trust SP Services (London) Limited**  
*Company Secretary*

*18 June 2010*

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

### **Independent auditor's report**

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#### **Independent auditor's report to the members 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 2009 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities (set out on page 5), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

#### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Stuart Wilson (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

24/6/2010

## Equity Release Funding (No.5) plc

### Accounting policies

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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 2009. 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 prior years, notional gains, where the cumulative income of the Company exceeded the expenditure, were recorded as provisions. Notional losses, where cumulative income was less than expenditure, were recorded as amounts due from UKER, to the extent that the losses were considered to arise from fair valuation modelling methodology differences which were expected to reverse in the future, with notional gains and losses being recorded as other operating income or expenses. UKER has no contractual obligation to fund any future losses. In 2009 this is no longer shown as a separate asset or liability, but is now shown as a movement in the fair value of mortgage assets. This has been done in order to better align the valuation of assets and liabilities. As such, the 2008 figures have been amended to reflect this change.

Since 2005, all European Union listed companies have been required to prepare consolidated financial statements using International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU). The date of transition to IFRS was 1 January 2004. In addition to fulfilling their legal obligation to comply with IFRS as adopted by the European Union, the Company has also complied with IFRS as issued by the International Accounting Standards Board and applicable at 31 December 2009.

In 2008, the IASB issued a revised version of IFRS 3, *Business Combinations*, which introduces a number of changes in accounting for such transactions that will impact the amount of goodwill recognised, the reported results in the period an acquisition occurs, and future reported results. A consequential amendment to IAS 27, *Consolidated and Separate Financial Statements*, requires a change in the ownership interest of a subsidiary (without loss of control) to be accounted for as an equity transaction, rather than giving rise to goodwill or a gain or loss. Other consequential amendments were made to IAS 7, *Statement of Cash Flows*, IAS 12, *Income Taxes*, IAS 21, *The Effects of Changes in Foreign Exchange Rates*, IAS 28, *Investments in Associates*, and IAS 31, *Interests in Joint Ventures*. These are applicable prospectively for accounting periods commencing 1 July 2009 or later, and are therefore not applicable for the current accounting period. On adoption, they will not have any material impact on the Company's financial reporting.

In 2009, the IASB issued IFRS 9, *Financial Instruments – Classification and Measurement*, the first part of a replacement standard for IAS 39, *Financial Instruments: Recognition and Measurement*. This is applicable prospectively for accounting periods commencing 1 January 2013 or later, and is therefore not applicable for the current accounting period. It has not yet been endorsed by the EU but, on adoption, will require us to review the classification of certain investments while allowing us to retain the fair value measurement option as we deem necessary.

During 2008 and 2009, the IASB also issued amendments to IFRS 1, *First Time Adoption of IFRS*, IAS 32, *Financial Instruments: Presentation*, IAS 39 and the results of its annual improvements project. Further amendments to IFRS 1, IFRS 2, *Share-Based Payment*, IAS 24, *Related Party Disclosures*, and the results of its second annual improvements project have been issued but have not yet been endorsed by the EU. These are applicable prospectively for accounting periods commencing 1 July 2009 or later, and are therefore not applicable for the current accounting period. On adoption, they will not have any material impact on the Company's financial reporting.

IFRIC interpretation 17, *Distributions of Non-cash Assets to Owners*, and interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*, as well as an amendment to interpretation 14, *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, were issued during 2008 and 2009 but the latter two have not yet been endorsed by the EU. These are applicable prospectively for accounting periods commencing 1 July 2009 or later, and are therefore not applicable for the current accounting period. On adoption, they will not have any impact on our financial reporting.

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

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

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

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#### **(B) Use of estimates**

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the income statement, statement of financial position, other primary statements and notes to the financial statements. This is particularly so in the estimation of loan assets, for which further details are given in policy G and note 7. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results can always 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
Borrowings	J
Payables and other financial liabilities	L

#### **(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 bank interest and reinsurance rebates.

#### **(E) Financial instruments**

The Company classifies the lifetime mortgages, the associated liabilities and derivative financial instruments at fair value, 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 fair value category has two sub-categories – those that meet the definition as being held for trading and those the Company chooses to designate as fair value (referred to in this accounting policy as 'other than trading'). Derivative financial instruments are classified as trading. All other financial instruments in the fair value 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 7, 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 statement of financial position at their fair value, which usually represents their cost. They are subsequently re-measured at their fair value. The 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.



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

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

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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 statement of financial position 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.

#### **(H) Statement of cash flows**

##### *Cash and cash equivalents*

Cash and cash equivalents consist of cash at banks and in hand, deposits held on 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 those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values. For the purposes of the statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included within payables and other financial liabilities on the statement of financial position.

##### *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) 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.

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

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

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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

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

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

#### **(L) 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 2009**

	Note	2009 £'000	2008 £'000
<b>Income</b>			
Interest and similar income	C & 2	26,887	28,965
Losses on financial instruments	E & 2	(3,215)	(4,309)
Other operating income	D & 2	76	169
		<u>23,748</u>	<u>24,825</u>
<b>Expenses</b>			
Fee and commission expense	3	(1,680)	(1,595)
Other operating expenses	3	(30)	(28)
Finance costs	3	(22,036)	(23,200)
		<u>(23,746)</u>	<u>(24,823)</u>
<b>Profit before tax</b>		<u>2</u>	<u>2</u>
Tax charge	I & 6	<u>(1)</u>	<u>(1)</u>
<b>Profit after tax</b>		<u>1</u>	<u>1</u>

**Statement of comprehensive income**  
**For the year ended 31 December 2009**


The Company has no other comprehensive income

The accounting policies (identified alphabetically) on pages 7 to 10 and notes (identified numerically) on pages 15 to 26 are an integral part of these financial statements

**Equity Release Funding (No.5) plc**  
**Statement of financial position**  
**As at 31 December 2009**

	Note	2009 £'000	2008 £'000
<b>Assets</b>			
Loans	G & 7	419,776	399,986
Derivative assets	E, F & 8	30,100	56,044
Receivables and other financial assets	9	4,983	5,488
Prepayments and accrued income		7	4
Cash at bank and in hand	H & 15	104	73
<b>Total assets</b>		<b>454,970</b>	<b>461,595</b>
<b>Equity</b>			
Ordinary share capital	K & 10	13	13
Retained earnings	11	8	7
<b>Total equity</b>		<b>21</b>	<b>20</b>
<b>Liabilities</b>			
Current tax	I & 12	1	1
Borrowings	J & 13	386,304	362,958
Payables and other financial liabilities	F, L & 14	68,644	98,616
<b>Total liabilities</b>		<b>454,949</b>	<b>461,575</b>
<b>Total equity and liabilities</b>		<b>454,970</b>	<b>461,595</b>

Approved by the Board on 18 June 2010



**Sunil Masson**  
**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 26 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 2009**

	Note	Ordinary share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2008		13	6	19
Profit for the year	11	-	1	1
<b>Balance at 31 December 2008</b>		<b>13</b>	<b>7</b>	<b>20</b>
Profit for the year	11	-	1	1
<b>Balance at 31 December 2009</b>		<b>13</b>	<b>8</b>	<b>21</b>

The accounting policies (identified alphabetically) on pages 7 to 10 and notes (identified numerically) on pages 15 to 26 are an integral part of these financial statements

**Equity Release Funding (No.5) plc**  
**Statement of cash flows**  
**For the year ended 31 December 2009**

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

	Note	2009 £'000	2008 £'000
<b>Cash flows from operating activities</b>			
Cash used in operations	15(a)	(2,768)	(3,936)
Tax paid		(1)	-
<b>Net cash used in operating activities</b>		<b>(2,769)</b>	<b>(3,936)</b>
<b>Cash flows from financing activities</b>			
Drawdown of borrowings		2,800	3,975
<b>Net cash from financing activities</b>		<b>2,800</b>	<b>3,975</b>
<b>Net increase in cash and cash equivalents</b>		<b>31</b>	<b>39</b>
Cash and cash equivalents at 1 January		73	34
<b>Cash and cash equivalents at 31 December</b>	15(b)	<b>104</b>	<b>73</b>

The accounting policies (identified alphabetically) on pages 7 to 10 and notes (identified numerically) on pages 15 to 26 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 2009**

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**1. Presentation changes**

The Company has adopted IAS 1 (Revised), *Presentation of Financial Statements*, as of 1 January 2009. The principal impact of this has been in the following areas:

- (a) The titles of some of the prime statements have changed, so that the balance sheet is now called the statement of financial position and the cash flow statement is renamed the statement of cash flows.
- (b) Changes in the year in each element of equity must now be shown on the face of the statement of changes in equity, rather than in the notes.
- (c) The standard requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in the financial statements. None of these conditions applies, so the Company has not presented three statements of financial position in these financial statements.

The Company has also adopted Amendments to IFRS 7, *Improving Disclosures about Financial Instruments*, as of 1 January 2009. The principal impact of these amendments is to require the following additional disclosures:

- (a) An analysis of financial assets and liabilities carried at fair value using a fair value hierarchy that reflects the significance of inputs used in making the fair value measurements,
- (b) An analysis of transfers of financial assets and liabilities between different levels of the fair value hierarchy,
- (c) A reconciliation from beginning to end of period of financial assets and liabilities whose fair value is based on unobservable inputs, and
- (d) An enhanced discussion and analysis of liquidity risk, including a maturity analysis of financial assets held for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.

Comparative information for the disclosures required by the IFRS 7 amendments is not needed in the first year of application.

**2. Details of income**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
<b>Interest and similar income</b>	<b>26,887</b>	<b>28,965</b>
<b>Financial instruments</b>		
Unrealised gains/(losses) on derivative contracts	<b>3,986</b>	<b>(50,510)</b>
Unrealised gains on mortgages	<b>12,748</b>	<b>16,723</b>
Unrealised (losses)/gains on loan notes	<b>(19,949)</b>	<b>29,478</b>
	<b>(3,215)</b>	<b>(4,309)</b>
<b>Other operating income</b>		
Bank interest	<b>74</b>	<b>157</b>
Reinsurance rebates	<b>2</b>	<b>3</b>
Other	<b>-</b>	<b>9</b>
	<b>76</b>	<b>169</b>
<b>Total income</b>	<b>23,748</b>	<b>24,825</b>

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2009 (continued)**

All revenue from external customers is derived from interest income received on mortgage loans and early redemption fees received. All revenue and non-current assets, other than financial instruments, are attributable to the United Kingdom. The Company has no reliance on major customers as all mortgages are granted on individual personal property.

**3. Details of expenses**

	2009 £'000	2008 £'000
<b>Fee and commission expense</b>	1,680	1,595
<b>Other operating expenses</b>		
Audit fees	30	28
<b>Finance cost</b>		
Interest expense on		
Securitised mortgage loan notes	11,654	23,676
Subordinated debt	857	1,865
Credit facility	447	1,261
Interest rate swap	9,205	(3,721)
Inflation rate swap	(127)	119
	22,036	23,200
<b>Total expenses</b>	23,746	24,823

**4. Directors' emoluments**

Wilmington Trust SP Services (London) Limited received fees of £15,397 (2008 £15,123) including VAT during the year to 31 December 2009, in respect of structuring and management services.

**5. Auditor's remuneration**

	2009 £'000	2008 £'000
Fees for the statutory audit of the Company's financial statements for the year	23	20

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.

**6. Tax**

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

The total tax charged to the income statement is as follows:

	2009 £'000	2008 £'000
<b>Current tax</b>		
For the year	1	1
<b>Total tax charged to the income statement (note 6(b))</b>	1	1



**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2009 (continued)**

**(b) Tax reconciliation**

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

	2009 £'000	2008 £'000
Net profit before tax	2	2
Tax calculated at standard UK corporation tax rate of 21% (2008 20.75%)	1	1
Tax charge for the period (note 6(a))	1	1

**7. Loans**

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. UKER administers the mortgage portfolio.

**(a) Carrying amounts**

The carrying amounts of loans at 31 December were as follows

	2009 £'000	2008 £'000
Lifetime mortgage loans	419,776	399,986

Of the above total, £398.7 million (2008 £384.6 million) is expected to be recovered more than one year after the statement of financial position 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 gain of £3.2 million (2008 loss of £38.4 million).

**(b) Fair value methodology**

For instruments carried at fair value, the measurement basis has been categorised 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.

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*Modelled with significant observable market inputs – ('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.

*Modelled with significant unobservable market inputs – ('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.

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

(i) An analysis of investments according to fair value hierarchy is given below:

	Fair Value Hierarchy			2009	
	Level 2 £'000	Level 3 £'000	Sub-total Fair Value £'000	Amortised cost £'000	Statement of Financial position total £'000
Loans	419,776	-	419,776	-	419,776
Borrowings	(335,310)	-	(335,310)	(50,994)	(386,304)
Other investments (including derivatives)	(38,391)	-	(38,391)	-	(38,391)
	<b>46,075</b>	<b>-</b>	<b>46,075</b>	<b>(50,994)</b>	<b>(4,919)</b>

As explained in note 1, comparative information for the disclosures required by IFRS7 amendments is not needed in the first year of application and so no tables for 2008 are presented. There have been no transfers between levels during the year.

## 8. Financial instruments

Financial instruments comprise:

	2009 £'000	2008 £'000
<b>At fair value through profit and loss: trading</b>		
Derivative financial instruments (note 18)	<b>30,100</b>	<b>56,044</b>

**Equity Release Funding (No.5) plc**  
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Of the above total, £30.1 million (2008 £56.0 million) is expected to be recovered more than one year after the statement of financial position date

**9. Receivables and other financial assets**

	2009 £'000	2008 £'000
Amounts due from Equity Release Holdings (No 5) Limited	15	15
Amounts due from ERF Trustee (No 5) Limited	4,958	5,042
Other debtors	10	431
	<b>4,983</b>	<b>5,488</b>

Of the above total £nil (2008 £nil) is expected to be recovered more than one year after the statement of financial position date

**10. Ordinary share capital**

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

	2009 £	2008 £
The authorised share capital of the Company was 100,000 ordinary shares of £1 each	<b>100,000</b>	<b>100,000</b>
The allotted, called up and fully paid share capital of the Company was 2 ordinary shares of £1 each	<b>2</b>	<b>2</b>
The allotted, called up and partly paid share capital of the Company was 49,998 ordinary shares of £1 each (25p paid per share)	<b>12,500</b>	<b>12,500</b>
	<b>12,502</b>	<b>12,502</b>

All shares are of the same class and rank *pari passu*

**11. Retained earnings**

	2009 £'000	2008 £'000
Balance at 1 January	7	6
Profit for the year	1	1
<b>Balance at 31 December</b>	<b>8</b>	<b>7</b>

**12. Tax liabilities**

**(a) General**

Current tax liabilities payable in more than one year are £nil (2008 £nil)

**(b) Deferred tax**

The Company had no recognised or unrecognised deferred tax balances at the year end (2008 £nil)

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**13. Borrowings**

**(a) Carrying amount**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Securitised mortgage loan notes	<b>335,310</b>	315,362
Subordinated debt	<b>26,283</b>	25,425
Amounts owed to credit institutions	<b>24,711</b>	22,171
	<b>386,304</b>	362,958

The carrying amount of the above borrowings that are stated at amortised cost is £60.0 million (2008 £47.6 million). Amortised cost is a reliable estimate of the fair value of these borrowings.

The change in fair value of mortgage loan notes during the year attributable to a change in credit risk was a loss of £1.4 million (2008 gain of £16.4 million).

Of the above total, all (2008 all) is expected to be paid more than one year after the statement of financial position date.

**(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 2009 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:

<b>£381 million mortgage backed loan notes</b>	<b>Capital balance outstanding at end of year Total £381.0m</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 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.

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**(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 £6.3 million (2008: £5.4 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 2009 was £24.7 million (2008: £22.2 million) and the committed credit facility was £207.0 million (2008: £212.0 million).

**14. Payables and other financial liabilities**

	2009 £'000	2008 £'000
Derivative financial liabilities (note 18)	68,491	98,421
Amounts due to UKER	19	144
Other financial liabilities	134	51
	<b>68,644</b>	<b>98,616</b>

Of the above total, £68.5 million (2008: £98.4 million) is expected to be paid more than one year after the statement of financial position date.

**15. Statement of cash flows**

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

	2009 £'000	2008 £'000
<b>Profit before tax</b>	<b>2</b>	<b>2</b>
Adjustments for		
Fair value gains on mortgages	(12,748)	(16,723)
Fair value losses/(gains) on loan notes	19,949	(29,478)
Fair value (gains)/losses on derivatives	(3,986)	50,510
Interest receivable on mortgage loans	(26,887)	(28,965)
Changes in working capital		
Decrease/(increase) in receivables and other financial assets	505	(221)
Increase in prepayments and accrued income	(3)	(4)
Decrease in payables and other financial liabilities	(42)	(13)
Increase in interest on borrowings	597	1,923
Proceeds from redemption of mortgages	19,845	19,033
<b>Cash used in operations</b>	<b>(2,768)</b>	<b>(3,936)</b>

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

**Equity Release Funding (No.5) plc**  
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(b) Cash and cash equivalents in the statement of cash flows at 31 December comprised:

	2009 £'000	2008 £'000
Cash at bank and in hand	104	73

**16. Capital**

In managing its capital, the Company seeks to retain financial flexibility by maintaining strong liquidity. The Company is not subject to any externally imposed capital requirements.

The Company manages IFRS shareholders' equity of £21,000 (2008: £20,000) as capital.

**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 statement of financial position as described in the accounting policy 1. 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 statement of financial position 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.

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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 asset interest bearing balances 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%	211.4	82.5	24.8	10.5	2.0	0.5	331.7
Up to 50%	7.6	17.1	23.5	4.5	1.1	0.2	54.0
Up to 60%	-	1.3	5.7	7.8	1.7	0.1	16.6
Up to 70%	-	-	0.1	1.7	1.0	-	2.8
Total	219.0	100.9	54.1	24.5	5.8	0.8	405.1

The LTVs in the table above are as at 31 December 2009. LTVs are published quarterly, (January, April, July and October) in the Investor Report.

**(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 repayment charges applied to early redemptions.

**(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 statement of financial position represents the maximum credit exposure of the Company at the statement of financial position date.

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**(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 (2008 £212.0 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:

2009	Within 1 year £m	1-5 years £m	Over 5 years £m	No contractual maturity £m
<b>Liabilities</b>				
Borrowings	(6.6)	53.6	700.9	88.3
Payables and other financial liabilities	15.5	25.7	58.6	-
2008				
	Within 1 year £m	1-5 years £m	Over 5 years £m	No contractual maturity £m
<b>Liabilities</b>				
Borrowings	8.5	58.2	612.9	121.8
Payables and other financial liabilities	6.7	17.5	29.6	-

The carrying value of the loan notes is £45.7 million lower (2008 £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 2009 was £425.1 million (2008 £415.4 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 increased by £2.8 million as at 31 December 2009 (2008 £12.5 million decrease).

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 2009 was £38.8 million (2008 £40.0 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.



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			2009			2008
	Contract/ notional amount £'000	Fair value asset £'000	Fair value liability £'000	Contract/ notional amount £'000	Fair value asset £'000	Fair value liability £'000
<b>Interest rate contracts</b>						
Interest rate swap	425,090		(47,719)	415,365	-	(90,613)
Option	405,663	30,100		402,863	56,044	-
Inflation rate swap	38,771		(20,772)	40,037	-	(7,808)
	<b>869,524</b>	<b>30,100</b>	<b>(68,491)</b>	<b>858,265</b>	<b>56,044</b>	<b>(98,421)</b>

**19. Related party transactions**

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

**(a) Expenses payable to related parties**

	2009 Expense incurred in year £'000	2008 Expense incurred in year £'000
ERF Trustee (No 5) Limited	2	2
UKER	2,108	3,104
	<b>2,110</b>	<b>3,106</b>

The Company paid fees to UKER during the course of the year of £1 3 million (2008 £1 2 million) in respect of portfolio administration and cash handling services

**(b) Income receivable from related parties**

	2009 Income received in year £'000	2008 Income received in year £'000
ERF Trustee (No 5) Limited	74	156

**(c) Payable at year end**

	2009 £'000	2008 £'000
UKER	26,301	25,569

**(d) Receivable at year end**

	2009 £'000	2008 £'000
Equity Release Holdings (No 5) Limited	15	15
ERF Trustee (No 5) Limited	4,958	5,042
	<b>4,973</b>	<b>5,057</b>

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**(e) Key management compensation**

Wilmington Trust SP Services (London) Limited received fees of £15,397 (2008 £15,123) including VAT during the year to 31 December 2009, in respect of structuring and management services

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

**(f) Parent entity**

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

**(g) Ultimate controlling entity**

The ultimate controlling entity is Aviva plc, a company registered in England. Its Group accounts 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