

Equity Release Funding (No.5) plc

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

Registered Office

c/o Wilmington Trust SP Services (London) Limited
Third Floor
1 King's Arms Yard
London
EC2R 7AF

Company Number

Registered in England No 5495271



Equity Release Funding (No.5) plc

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Equity Release Funding (No.5) plc

Registered in England No. 5495271

Directors' report

The directors present their audited financial statements for Equity Release Funding (No 5) plc (the Company) for the year ended 31 December 2010

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), a wholly owned subsidiary of Aviva Life & Pensions UK Limited. Any cash shortfalls will ultimately be borne by the noteholders.

Changes in market conditions have led to revisions in credit risk assumptions and changes in the discount rate. This has resulted in large fair value movements in the mortgage and loan note balances over their lives, which do not off-set. There has also been a change in methodology during the current year from using risk free rates based on gilt curves to using risk free rates based on swap curves to value assets and loan notes.

The entity bears the 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, where property price risk remains, house price values would have to be 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 £24.3 million (2009 £23.7 million)

Finance costs and fee and commission expenses for the year are £24.3 million (2009 £23.7 million)

Profit after tax for the year is £2,000 (2009 £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. In addition to this, given the structure of the Company, any losses on the assets are borne by the noteholders. 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 2010 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.

Equity Release Funding (No.5) plc

Directors' report (continued)

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 18 to the financial statements.

Dividend

The directors do not recommend the payment of a dividend for the year (2009 £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.

Corporate governance

The Company's ultimate controlling party is Aviva Plc. As part of the Group, the directors are committed to high standards of Corporate Governance and support the 2008 Combined Code on Corporate Governance ('the Combined Code'). The Group's Corporate Governance manual is available on the Group website at www.aviva.com.

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)


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 for and on behalf of Wilmington Trust SP Services (London) Limited

Company Secretary

22 June 2011

Equity Release Funding (No.5) plc

Independent auditor's report

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 2010 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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the directors' report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2010 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 June 2011

Equity Release Funding (No.5) plc

Accounting policies

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 2010. 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 2008, the IASB issued revised versions of IFRS 3, *Business Combinations*, and IAS 27, *Consolidated and Separate Financial Statements*. The former introduced a number of changes in accounting for such transactions that impact the amount of goodwill recognised, the reported results in the period an acquisition occurs, and future reported results. The latter now 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. 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 amendments do not have any impact on the Company's financial reporting.

During 2008 and 2009, the IASB also issued amendments to IFRS 1, *First Time Adoption of IFRS*, IFRS 2, *Share-Based Payment*, IAS 39, *Financial Instruments: Recognition and Measurement* and the results of its annual improvements project. IFRIC interpretation 17, *Distributions of Non-cash Assets to Owners*, issued in 2008, has also been endorsed by the EU. These are all applicable for the first time in the current accounting period and they have no impact on the Company's financial reporting.

Further amendments to IFRS 1, IAS 24, *Related Party Disclosures*, and IAS 32, *Financial Instruments – Presentation*, and the results of its next annual improvements project have been issued and endorsed by the EU, while other amendments to IFRS 1, IFRS 7, *Financial Instruments – Disclosures*, and IAS 12 have been issued but have not yet been so endorsed. These are applicable prospectively for accounting periods commencing 1 February 2010 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*, followed by additional requirements on accounting for financial liabilities in 2010. These are the first two parts of a replacement standard for IAS 39. They are applicable prospectively for accounting periods commencing 1 January 2013 or later, and are therefore not applicable for the current accounting period. IFRS 9 has not yet been endorsed by the EU but, on adoption, will require us to review the classification of certain financial instruments while allowing us to retain fair value measurement as we deem necessary. We have not yet completed our assessment of its impact.

IFRIC interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*, and 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 and have been endorsed by the EU. These are applicable prospectively for accounting periods commencing 1 July 2010 or later, and are therefore not applicable for the current accounting period. On adoption, they will not 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 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.

Equity Release Funding (No.5) plc

Accounting policies (continued)

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 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 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. Premiums paid for derivatives are recorded as an asset on the statement of financial position at the date of purchase, representing their fair value at that date.

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.

Equity Release Funding (No.5) plc

Accounting policies (continued)

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 in accordance with the provisions of current UK tax legislation. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to reserves as appropriate.

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

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

(J) Borrowings

Loan notes backed by mortgages are designated at fair value through profit and loss as 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.

Equity Release Funding (No.5) plc

Accounting policies (continued)

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 2010

| | Note | 2010 £'000 | 2009 £'000 |
|---------------------------------|-------|-----------------|-----------------|
| Income | | | |
| Interest and similar income | C & 1 | 30,043 | 26,887 |
| Losses on financial instruments | E & 1 | (5,875) | (3,215) |
| Other operating income | D & 1 | 120 | 76 |
| | | 24,288 | 23,748 |
| Expenses | | | |
| Fee and commission expense | 2 | (1,658) | (1,680) |
| Other operating expenses | 2 | (27) | (30) |
| Finance costs | 2 | (22,600) | (22,036) |
| | | (24,285) | (23,746) |
| Profit before tax | | 3 | 2 |
| Tax charge | I & 5 | (1) | (1) |
| Profit after tax | | 2 | 1 |

Statement of comprehensive income
For the year ended 31 December 2010

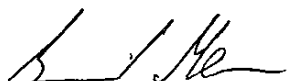
The Company has no other comprehensive income

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 2010

| | Note | 2010 £'000 | 2009 £'000 |
|--|-----------|----------------|----------------|
| Assets | | | |
| Loans | G & 7 | 423,283 | 419,776 |
| Derivative assets | E, F & 8 | 43,401 | 30,100 |
| Receivables | 9 | 5,363 | 4,983 |
| Prepayments and accrued income | | 3 | 7 |
| Cash and cash equivalents | H & 15 | 90 | 104 |
| Total assets | | 472,140 | 454,970 |
| Equity | | | |
| Ordinary share capital | K & 10 | 13 | 13 |
| Retained earnings | 11 | 10 | 8 |
| Total equity | | 23 | 21 |
| Liabilities | | | |
| Current tax liabilities | I & 12 | 1 | 1 |
| Borrowings | J & 13 | 376,757 | 386,304 |
| Payables and other financial liabilities | F, L & 14 | 95,359 | 68,644 |
| Total liabilities | | 472,117 | 454,949 |
| Total equity and liabilities | | 472,140 | 454,970 |

Approved by the Board on 22 June 2011



Sunil Masson for and on behalf of 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 2010

| | Note | Ordinary share capital £'000 | Retained earnings £'000 | Total equity £'000 |
|------------------------------------|------|---------------------------------------|-------------------------------|-----------------------|
| Balance at 1 January 2009 | | 13 | 7 | 20 |
| Profit for the year | 11 | - | 1 | 1 |
| Balance at 31 December 2009 | | 13 | 8 | 21 |
| Profit for the year | 11 | - | 2 | 2 |
| Balance at 31 December 2010 | | 13 | 10 | 23 |

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 2010

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

| | Note | 2010 £'000 | 2009 £'000 |
|---|-------|----------------|----------------|
| Cash flows from operating activities | | | |
| Cash used in operations | 15(a) | (3,713) | (2,768) |
| Tax paid | | (1) | (1) |
| Net cash used in operating activities | | (3,714) | (2,769) |
| Cash flows from financing activities | | | |
| Drawdown of borrowings | | 3,700 | 2,800 |
| Net cash from financing activities | | 3,700 | 2,800 |
| Net (decrease)/increase in cash and cash equivalents | | (14) | 31 |
| Cash and cash equivalents at 1 January | | 104 | 73 |
| Cash and cash equivalents at 31 December | 15(b) | 90 | 104 |

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 2010

1. Details of income

| | 2010 | 2009 |
|---|----------------|----------------|
| | £'000 | £'000 |
| Interest and similar income | 30,043 | 26,887 |
| Financial instruments | | |
| Unrealised (losses)/gains on derivative contracts | (12,891) | 3,986 |
| Unrealised (losses)/gains on mortgages | (6,890) | 12,748 |
| Unrealised gains/(losses) on loan notes | 13,906 | (19,949) |
| | (5,875) | (3,215) |
| Other operating income | | |
| Bank interest | 118 | 74 |
| Reinsurance rebates | 2 | 2 |
| | 120 | 76 |
| Total income | 24,288 | 23,748 |

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.

2. Details of expenses

| | 2010 | 2009 |
|-----------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Fee and commission expense | 1,658 | 1,680 |
| Other operating expenses | | |
| Audit fees | 27 | 30 |
| Finance cost | | |
| Interest expense on | | |
| Securitised mortgage loan notes | 3,526 | 11,654 |
| Subordinated debt | 641 | 857 |
| Credit facility | 615 | 447 |
| Interest rate swap | 17,736 | 9,205 |
| Inflation rate swap | 82 | (127) |
| | 22,600 | 22,036 |
| Total expenses | 24,285 | 23,746 |

3. Directors' emoluments

Wilmington Trust SP Services (London) Limited received fees of £17,451 (2009 £15,397) including VAT during the year to 31 December 2010, in respect of structuring and management services.

Equity Release Funding (No.5) plc
Notes to the financial statements
For the year ended 31 December 2010 (continued)

4. Auditor's remuneration

| | 2010 | 2009 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Fees for the statutory audit of the Company's financial statements for the year | 27 | 23 |

Audit fees in respect of audit and other services for a fellow group undertaking are borne by the Company

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

| | 2010 | 2009 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Current tax | | |
| For the year | 1 | 1 |
| Total tax charged to the income statement (note 5 (b)) | 1 | 1 |

(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

| | 2010 | 2009 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Net profit before tax | 3 | 2 |
| Tax calculated at standard UK corporation tax rate of 21% (2009 21%) | 1 | 1 |
| Tax charge for the period (note 5 (a)) | 1 | 1 |

A reduction in the UK small profits rate from 21% to 20% was announced in the Emergency Budget of 22 June 2010. The Finance Bill 2011 has enacted the reduction with effect from April 2011, the effect of which is not expected to be material

6. Fair value methodology

(a) Basis for determining fair value hierarchy of financial instruments

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

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities. An active market is one in which transactions for the asset or liability 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.

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 or liability, either directly or indirectly.

Equity Release Funding (No.5) plc
Notes to the financial statements
For the year ended 31 December 2010 (continued)

If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include the following:

- Quoted prices for similar (i.e. not identical) assets and liabilities in active markets,
- Quoted prices for identical or similar assets and liabilities 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 or liability (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)

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 or liability at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect the assumptions the business unit considers that market participants would use in pricing the asset.

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

(b) Fair value hierarchy analysis

An analysis of financial assets and liabilities according to fair value hierarchy is given below:

| | Fair Value Hierarchy | | | | 2010 |
|------------------------|----------------------|---------|---------------------|---------------|--------------------------------------|
| | Level 2 | Level 3 | Sub-total | Amortised | Statement of |
| | £'000 | £'000 | Fair Value £'000 | cost £'000 | Financial position total £'000 |
| Loans | 423,283 | - | 423,283 | - | 423,283 |
| Derivative assets | 43,401 | - | 43,401 | - | 43,401 |
| Financial liabilities | | | | | |
| Borrowings | (321,403) | - | (321,403) | (55,354) | (376,757) |
| Derivative liabilities | (94,684) | - | (94,684) | - | (94,684) |
| Total | 50,597 | - | 50,597 | (55,354) | (4,757) |

| | Fair Value Hierarchy | | | | 2009 |
|------------------------|----------------------|---------|---------------------|---------------|--------------------------------------|
| | Level 2 | Level 3 | Sub-total | Amortised | Statement of |
| | £'000 | £'000 | Fair Value £'000 | cost £'000 | Financial position total £'000 |
| Loans | 419,776 | - | 419,776 | - | 419,776 |
| Derivative assets | 30,100 | - | 30,100 | - | 30,100 |
| Financial liabilities | | | | | |
| Borrowings | (335,310) | - | (335,310) | (50,994) | (386,304) |
| Derivative liabilities | (68,491) | - | (68,491) | - | (68,491) |
| Total | 46,075 | - | 46,075 | (50,994) | (4,919) |

There have been no transfers between levels during the year.

Equity Release Funding (No.5) plc
Notes to the financial statements
For the year ended 31 December 2010 (continued)

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

| | 2010 £'000 | 2009 £'000 |
|-------------------------|---------------|---------------|
| Lifetime mortgage loans | 423,283 | 419,776 |

Of the above total, £416.5 million (2009 £398.7 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 loss of £2.2 million (2009 gain of £3.2 million).

8. Financial instruments

Financial instruments comprise:

| | 2010 £'000 | 2009 £'000 |
|--|---------------|---------------|
| At fair value through profit and loss: trading | | |
| Derivative financial instruments (note 18) | 43,401 | 30,100 |

Of the above total, £43.4 million (2009 £30.1 million) is expected to be recovered more than one year after the statement of financial position date.

9. Receivables

| | 2010 £'000 | 2009 £'000 |
|---|---------------|---------------|
| Amounts due from Equity Release Holdings (No 5) Limited | 15 | 15 |
| Amounts due from ERF Trustee (No 5) Limited | 4,452 | 4,958 |
| Other receivables | 896 | 10 |
| | 5,363 | 4,983 |

Of the above total £nil (2009 £nil) is expected to be recovered more than one year after the statement of financial position date.

Equity Release Funding (No.5) plc
Notes to the financial statements
For the year ended 31 December 2010 (continued)

10. Ordinary share capital

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

| | 2010 £ | 2009 £ |
|--|----------------|-----------|
| 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 |

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

11. Retained earnings

| | 2010 £'000 | 2009 £'000 |
|-------------------------------|---------------|---------------|
| Balance at 1 January | 8 | 7 |
| Profit for the year | 2 | 1 |
| Balance at 31 December | 10 | 8 |

12. Tax liabilities

(a) General

Current tax liabilities payable in more than one year are *£nil (2009 £nil)*

(b) Deferred tax

The Company had no recognised or unrecognised deferred tax balances at the year end *(2009 £nil)*

13. Borrowings

(a) Carrying amount

| | 2010 £'000 | 2009 £'000 |
|-------------------------------------|----------------|---------------|
| Securitised mortgage loan notes | 321,403 | 335,310 |
| Subordinated debt | 26,924 | 26,283 |
| Amounts owed to credit institutions | 28,430 | 24,711 |
| | 376,757 | 386,304 |

The carrying amount of the above borrowings that are stated at amortised cost is £55.4 million *(2009 £60.0 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 gain of £17.2 million *(2009 loss of £1.4 million)*.

Equity Release Funding (No.5) plc
Notes to the financial statements
For the year ended 31 December 2010 (continued)

All of the above total (2009 *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 2010 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, A | 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 £6.9 million (2009 *£6.3 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 2010 was £28.4 million (2009 *£24.7 million*) and the committed credit facility was £198.0 million (2009 *£207.0 million*).

Equity Release Funding (No.5) plc
Notes to the financial statements
For the year ended 31 December 2010 (continued)

14. Payables and other financial liabilities

| | 2010 £'000 | 2009 £'000 |
|--|---------------|---------------|
| Derivative financial liabilities (notes 6(b) and 18) | 94,684 | 68,491 |
| Amounts due to UKER | 516 | 19 |
| Other financial liabilities | 159 | 134 |
| | 95,359 | 68,644 |

Of the above total, £94.7 million (2009 £68.5 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:

| | 2010 £'000 | 2009 £'000 |
|---|----------------|----------------|
| Profit before tax | 3 | 2 |
| Adjustments for | | |
| Fair value losses/(gains) on mortgages | 6,890 | (12,748) |
| Fair value (gains)/losses on loan notes | (13,906) | 19,949 |
| Fair value losses/(gains) on derivatives | 12,891 | (3,986) |
| Interest receivable on mortgage loans | (30,043) | (26,887) |
| Changes in working capital | | |
| (Increase)/decrease in receivables | (380) | 505 |
| Decrease/(increase) in prepayments and accrued income | 4 | (3) |
| Increase/(decrease) in payables and other financial liabilities | 522 | (42) |
| Increase in interest on borrowings | 660 | 597 |
| Proceeds from redemption of mortgages | 19,646 | 19,845 |
| Cash used in operations | (3,713) | (2,768) |

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 statement of cash flows at 31 December comprised:

| | 2010 £'000 | 2009 £'000 |
|--------------------------|---------------|---------------|
| Cash at bank and in hand | 90 | 104 |

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 £23,000 (2009 £21,000) as capital.

Equity Release Funding (No.5) plc
Notes to the financial statements
For the year ended 31 December 2010 (continued)

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.

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 to 0.01% of interest accruing on the mortgages, will be payable to the originator, Aviva Equity Release UK Limited (UKER), a wholly owned subsidiary of Aviva Life & Pensions UK Limited. Any cash shortfalls will ultimately be borne by the noteholders. Accordingly, there would be no impact on the Company's profit as the result of changes in economic factors and assumptions.

Consequently, the Company has not provided any detailed sensitivity analysis as required by IFRS 7, as 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.

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:

Equity Release Funding (No.5) plc
Notes to the financial statements
For the year ended 31 December 2010 (continued)

| | Age Under 75 | 75-79 | 80-84 | 85-89 | 90-94 | 95-99 | 100+ | Total |
|--------------|--------------------|--------------|-------------|-------------|------------|------------|------------|--------------|
| LTV | £m | £m | £m | £m | £m | £m | £m | £m |
| Up to 40% | 190.3 | 80.8 | 25.0 | 11.0 | 2.6 | 0.5 | - | 310.2 |
| Up to 50% | 11.2 | 28.6 | 30.2 | 3.3 | 0.4 | 0.5 | - | 74.2 |
| Up to 60% | - | 4.0 | 6.3 | 11.1 | 1.3 | 0.1 | 0.2 | 23.0 |
| Up to 70% | - | - | 1.5 | 2.7 | 2.2 | 0.2 | - | 6.6 |
| Up to 80% | - | - | - | 0.2 | 0.7 | - | - | 0.9 |
| Total | 201.5 | 113.4 | 63.0 | 28.3 | 7.2 | 1.3 | 0.2 | 414.9 |

The LTVs in the table above are as at 31 December 2010. 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.

(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 (2009: £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:

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Notes to the financial statements
For the year ended 31 December 2010 (continued)

| 2010 | Within 1 year £m | 1-5 years £m | Over 5 years £m | No contractual maturity £m |
|--|------------------------|-----------------|--------------------|-------------------------------------|
| Liabilities | | | | |
| Borrowings | 9.1 | 69.2 | 670.2 | 98.9 |
| Payables and other financial liabilities | 18.0 | 41.9 | 64.8 | - |
| 2009 | | | | |
| | Within 1 year £m | 1-5 years £m | Over 5 years £m | No contractual maturity £m |
| Liabilities | | | | |
| Borrowings | (6.6) | 53.6 | 700.9 | 88.3 |
| Payables and other financial liabilities | 15.5 | 25.7 | 58.6 | - |

The carrying value of the loan notes is £59.6 million lower (2009 £45.7 million lower) 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 2010 was £434.1 million (2009 £425.1 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 £3.7 million as at 31 December 2010 (2009 £2.8 million increase).

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 2010 was £37.4 million (2009 £38.8 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.

| | 2010 | | | 2009 | | |
|-------------------------|--|------------------------------|----------------------------------|--|------------------------------|----------------------------------|
| | Contract/ notional amount £'000 | Fair value asset £'000 | Fair value liability £'000 | Contract/ notional amount £'000 | Fair value asset £'000 | Fair value liability £'000 |
| Interest rate contracts | | | | | | |
| Interest rate swap | 434,100 | - | (76,250) | 425,090 | - | (47,719) |
| Option | 409,400 | 43,401 | - | 405,663 | 30,100 | - |
| Inflation rate swap | 37,400 | - | (18,434) | 38,771 | - | (20,772) |
| | 880,900 | 43,401 | (94,684) | 869,524 | 30,100 | (68,491) |

Equity Release Funding (No.5) plc
Notes to the financial statements
For the year ended 31 December 2010 (continued)

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

| | 2010 | 2009 |
|--|-----------------|-----------------|
| | Expense | Expense |
| | incurred | incurred |
| | in year | in year |
| | £'000 | £'000 |
| ERF Trustee (No 5) Limited | 3 | 2 |
| UKER – portfolio administration and cash handling fees | 1,263 | 1,251 |
| UKER – early repayment charges | 303 | - |
| UKER – interest | 641 | 857 |
| | 2,210 | 2,110 |

(c) Income receivable from related parties

| | 2010 | 2009 |
|--|-----------------|-----------------|
| | Income | Income |
| | received | received |
| | in year | in year |
| | £'000 | £'000 |
| ERF Trustee (No 5) Limited – bank interest | 118 | 74 |

(d) Payable at year end

| | 2010 | 2009 |
|-------------------|---------------|---------------|
| | £'000 | £'000 |
| UKER | | |
| Subordinated debt | 26,924 | 26,282 |
| Current account | 516 | 19 |
| | 27,440 | 26,301 |

(e) Receivable at year end

| | 2010 | 2009 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Equity Release Holdings (No 5) Limited | 15 | 15 |
| ERF Trustee (No 5) Limited | 4,452 | 4,958 |
| | 4,467 | 4,973 |

(f) Key management compensation

Wilmington Trust SP Services (London) Limited received fees of £17,451 (2009 £15,397) including VAT during the year to 31 December 2010, in respect of structuring and management services

There are no amounts receivable from or payments due to members of key management

(g) Parent entity

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

Equity Release Funding (No.5) plc
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(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.