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TD Bank Europe Limited

Report and Financial Statements

31 October 2006

 ERNST & YOUNG



Registered No: 2734652

Directors

G Alder (Australian)
T Tomovski (Canadian)
J White (British)
K Benko (Canadian)
J Stewart (British)
E Merica (British)

Auditors

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

Registered Office

Triton Court
14/18 Finsbury Square
London EC2A 1DB

Directors' report

The directors submit their report and audited financial statements for the year ended 31 October 2006.

Principal activity

The company, an authorised institution under The Financial Services and Markets Act 2000, carries on the business of corporate banking.

Directors and their interests

The directors of the company who served during the year are as follows:

M Walton (British)	- Managing Director and Chairman (Resigned 31/10/06)
G Alder (Australian)	- Managing Director and Chairman (Appointed 1/11/06)
M Singh (Canadian)	- Finance Director (Resigned 9/3/06)
J White (British)	- Legal and Compliance Director
T Hill (British)	- Director (Resigned 30/6/06)
K Benko (Canadian)	- Director (Appointed 24/6/06)
T Tomovski (Canadian)	- Finance Director (Appointed 9/3/06)
J Stewart (British)	- Director (Appointed 21/6/06)
E Merica (British)	- Non-Executive Director
M Newman (Canadian)	- Director (Resigned 30/6/06)

None of the directors had any interest in the share capital of the company or of any other Toronto-Dominion Bank group companies which are incorporated in the United Kingdom.

Risk management

The financial risk management objectives and policies of the company are shown in notes 21 and 22 on pages 21-25.

Business review and future developments

The company's results for the year are set out on page 7. The profit on ordinary activities after taxation for the year was £8,257,000 (2005 - £14,395,000).

No Redeemable Preference dividends were declared or paid during the year (2005 - Nil). No dividend on Ordinary Shares was declared and none is proposed (2005 - Nil).

During the year the company continued its strategy of lending to investment grade corporate clients. The company does not anticipate any changes in principal activity in the forthcoming year.

Charitable donations

During the year the company made no charitable donations (2005 - £337)

Auditors

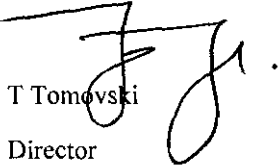
In accordance with Section 386 of the Companies Act 1985, the company has elected to dispense with the obligation to appoint auditors annually. Ernst & Young LLP are therefore deemed to be reappointed as the company's auditors for each succeeding year, as long as the election remains.

Directors' report

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors to prepare their report, of which the auditors are unaware. Having made enquiries of fellow directors and the group's auditors, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditors are aware of that information.

On behalf of the board


T Tomovski

Director

31/1/07

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of TD Bank Europe Limited

We have audited the company's financial statements for the year ended 31 October 2006 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report

to the members of TD Bank Europe Limited (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 October 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP

Registered auditor

31/1/07

Profit and loss account

for the year ended 31 October 2006

		2006	2005
	Notes	£000	restated £000
Interest receivable and similar income	2	24,709	22,192
Interest payable and similar charges	3	(11,146)	(8,326)
Net interest income		13,563	13,866
Dividend income		509	78
Fees and commissions receivable	4	2,430	3,965
Gain on sale of loans		—	2,990
Operating income		16,502	20,899
Administrative expenses		(1,980)	(2,211)
FX gain/(loss)		767	(550)
Other operating expenses		(661)	(357)
Operating profit before provisions	5	14,628	17,781
Reversal of provisions for bad and doubtful debts	9	—	4,695
Operating profit		14,628	22,476
Profit on ordinary activities before taxation		14,628	22,476
Tax on profit on ordinary activities	8	(6,371)	(8,081)
Retained profit for the financial year	18	8,257	14,395

The above results are derived solely from continuing operations.

The notes on pages 10 to 25 form an integral part of the financial statements.

Statement of total recognised gains and losses

for the year ended 31 October 2006

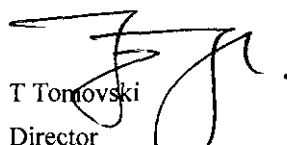
	2006 £000	2005 £000
Profit for the financial year	8,257	14,395
Total recognised gains and losses relating to the year	8,257	14,395
Translation difference on non-sterling share capital	3,479	(1,781)
Prior year adjustment on change in accounting policy on adoption of presentation requirements of FRS 25	(33,684)	-
Total gains and losses recognised since last annual report	(21,948)	12,614

Balance sheet

at 31 October 2006

		2006	2005
	Notes	£000	restated £000
Assets			
Loans and advances to banks	10	573,799	544,479
Loans and advances to customers	11	156,452	35,829
Fixed asset investment	12	10,000	10,000
Other assets	13	3,650	4,635
Total assets		743,901	594,943
Liabilities			
Deposits by banks	14	294,911	158,173
Other liabilities	15	3,511	4,762
Liability component of redeemable preference shares		117,744	112,530
		416,166	275,465
Shareholder's funds			
Called up share capital	17	20,968	22,598
Equity component of redeemable preference shares	17	252,147	253,996
Profit and loss account	18	54,620	42,884
Total shareholder's funds	19	327,735	319,478
Total liabilities and shareholder's funds		743,901	594,943
Memorandum items			
Contingent liabilities: Guarantees	20	7,790	8,909
Commitments: Undrawn committed facilities	20	971,009	852,114

The financial statements were approved by the directors on 31/1/07 and signed on their behalf by:


T Tomovski
Director

The notes on pages 10 to 25 form an integral part of these financial statements.

Notes to the financial statements

at 31 October 2006

1. Accounting policies

Basis of preparation and changes in accounting policies

The financial statements of TD Bank Europe Limited were approved by the Board of Directors on 31st January 2007.

These financial statements have been prepared on the going concern basis under the historical cost convention and in accordance with the requirements of Schedule 9 of the Companies Act 1985 relating to banking companies, applicable Accounting Standards and Statements of Recommended Practice issued by the British Bankers Association.

In preparing the financial statements for the current year, the Company has adopted following new standards for the first time:

- FRS 21 'Events after the balance sheet date';
- FRS 28 'Corresponding amounts'; and
- The presentation requirements of FRS 25 'Financial instruments: presentation and disclosure'

FRS 21 has had no material effect on the financial statements for the current year or prior period. FRS 28 'Corresponding amounts' also has had no material effect as it imposes same requirements hitherto required by Companies Act 1985.

FRS 25 requires changes in presentation of preference shares as equity or financial liability depending on assessment of particular rights attached as to whether they exhibit fundamental characteristics of a financial liability or equity. Previously all preference shares issued by the Company were disclosed as equity. The new accounting policy for classification of shares as either equity or liability and its affect on the financial statements has been disclosed below. The comparatives have been restated to reflect the affect of change in accounting policy.

A summary of the accounting policies of the company is set out below:

Fees receivable

Fees receivable arise from lending activities in Europe. Loan origination fees are considered to be adjustments to loan yield and are deferred and amortised over the term of the loan. Commitment fees are amortised to other income over the commitment period when it is unlikely the commitment will be called upon; otherwise they are deferred and amortised over the term of the resulting loan. Loan syndication fees are recognised upon completion of the financing placement unless the yield on any loan retained by the Bank is less than that of other comparable lenders involved in the financing syndicate. In such cases, an appropriate portion of the fee is recognised as a yield adjustment over the term of the loan.

Commissions receivable

Commissions receivable arise from the sale of bonds and T-bills in Europe. Commission income is accrued as it is earned.

Notes to the financial statements

at 31 October 2006

1. Accounting policies (continued)

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date arising from transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future. Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax assets and liabilities are not discounted.

Loans and advances and provision for bad and doubtful debts

Loans and advances are stated at the principal amounts outstanding, net of provisions for losses on loans and advances.

Provisions for losses on loans and advances are based on evaluation by the directors of their collectability. Specific provisions are raised against debts whose recovery has been identified as doubtful.

Estimates of losses on loans and advances require the exercise of judgement and the use of assumptions. The principal factors considered in determining the loan loss provision are the composition and quality of the loan portfolio, the ability of the individual borrowers to repay the loans, past performance of the individual loans, existence of overdue interest or principal repayments and, in the event of default, the value and adequacy of collateral/security.

Interest income recognition

Interest earned and paid is accounted for on an accruals basis. When a loan is classified as impaired, interest accruals cease and any interest previously accrued, but not yet received, is reversed against interest income. This treatment continues until, in the opinion of management, there is reasonable assurance as to the timely collection of the full amount of loan principal and interest.

Foreign currencies

Net interest income and fee and commission denominated in foreign currencies are translated into Sterling at average rates of exchange during the year.

For reporting purposes, monetary assets and liabilities (including share capital) denominated in currencies other than Sterling are translated into Sterling at spot rates of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities denominated in currencies other than Sterling are translated into Sterling at the spot rates of exchange at the date of transaction. Foreign exchange differences relating to the company's share capital are taken directly to profit and loss account reserves. Other foreign exchange gains or losses are dealt with through the profit and loss account as other operating income or expense.

Financial instruments

The criteria required for an instrument to be classified as a hedge are that the transaction must be reasonably expected to match or eliminate a significant proportion of the risk inherent in the assets, liabilities, other positions or cash flows being hedged and which results from potential movements in interest rates or exchange rates. Also, adequate evidence of the intention to hedge and linkage with the underlying risk inherent in the assets, liabilities, other positions or cash flow being hedged must be established at the outset of the transaction.

All cash flow arising from interest rate related instruments which are designated as hedges are accounted for on an accrual basis equivalent to the underlying assets, liabilities, or positions. Where a hedge is terminated early, the realised gain or loss is amortised over the residual life of the underlying instrument. If the underlying instrument is redeemed, the remaining hedge cash flows are marked to market and immediately recognised in the profit and loss account. Amounts accrued on hedging instruments are included within prepayments or accruals.

Notes to the financial statements

at 31 October 2006

1. Accounting policies (continued)

Pension costs

An external pension provider operates a defined contribution scheme on behalf of the company and payments made by the company are charged directly to the profit and loss account in the period to which they relate.

Related party transactions

Under paragraph 3(c) of Financial Reporting Standard (FRS) 8 "Related Party Disclosures" the company has taken advantage of the exemptions permitted for related party transactions as a result of being a wholly owned subsidiary of a Group, where the parent prepares consolidated financial statements which include the company and which are publicly available.

Cash flow statement

The company has not produced a cash flow statement. In accordance with FRS 1 (revised 1996), the company is claiming an exemption as the financial statements of its ultimate parent are publicly available.

Segmental information

The sole class of business of the company during the year was corporate banking. The sole geographical segment from which the company's corporate banking is Europe. Consequently, no segmental analysis of the company's revenue and assets is required.

Classification of shares as debt or equity

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 is a non-derivative that contains no contractual obligations to deliver a variable number of shares or is a derivative that will be settled only by the Company exchanging a fixed amount of cash or other assets for a fixed number of the Company's own equity instruments.

When shares are issued, any component that creates a financial liability of the company is presented as a liability in the balance sheet; measured initially at fair value net of transaction costs and thereafter at amortised cost until extinguished on conversion or redemption. The corresponding dividends relating to the liability component are charged as interest expense in the income statement. The initial fair value of the liability component is determined using a market rate for an equivalent liability without a conversion feature.

The remainder of the proceeds on issue is allocated to the equity component and included in shareholders' equity, net of transaction costs. The carrying amount of the equity component is not re-measured in subsequent years.

Consequently, a financial liability of £117,744,000 (2005 - £112,530,000) has been recognised on net present value basis. An interest cost of £5,981,000 (2005 - £5,679,000) has been recognised in the profit and loss account and the opening reserves have been adjusted by £33,684,000 for interest cost for prior years.

Transaction costs are apportioned between the liability and equity components of the shares based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

The Company's non-cumulative redeemable preference shares have been accounted for as such a hybrid instrument.

Notes to the financial statements

at 31 October 2006

2. Interest receivable and similar income

	2006 £000	2005 £000
Interest receivable on loans to customers	3,551	2,314
Interest receivable on deposits with banks	13,521	14,306
Interest receivable from ultimate parent undertaking	7,637	5,572
	<u>24,709</u>	<u>22,192</u>

3. Interest payable and similar charges

	2006 £000	2005 <i>restated</i> £000
Interest payable to immediate parent undertaking	2,808	2,040
Interest payable to ultimate parent undertaking	2,357	601
Interest payable on loans from banks	—	6
Redeemable preference shares	5,981	5,679
	<u>11,146</u>	<u>8,326</u>

4. Fees and commissions receivable

	2006 £000	2005 £000
Loan commitment fees receivable	556	774
Other fees receivable	198	567
Other income from group undertakings, including commissions	1,676	2,624
	<u>2,430</u>	<u>3,965</u>

5. Operating profit before provisions

Operating profit before provisions is stated after charging:

	2006 £000	2005 £000
Other charges payable to ultimate parent	438	365
FX loss	—	253
FX (gain)/loss on liability component of redeemable preference shares	(767)	297
Auditor's remuneration - audit services	39	68
- non-audit services	—	37
	<u></u>	<u></u>

Auditor's remuneration for audit services in 2006 includes £38,584 (2005 - £58,026) relating to the fee incurred for the year ended 31 October 2006 and £ nil (2005 - 9,898) relating to an under accrual in the prior year.

Notes to the financial statements

at 31 October 2006

6. Directors' emoluments

	2006 £000	2005 £000
Emoluments	10	10
Pension contributions	—	—
	<u>10</u>	<u>10</u>

No pension contributions under either a defined contribution or defined benefit scheme were accrued for any director in 2006 (2005 - Nil) in respect of their role with the company.

During the year, no director was advanced a loan (2005 - Nil) in respect of their role with the company.

7. Employees

	2006 £000	2005 £000
Wages and salaries	1,122	1,143
Social security costs	211	451
Other pension costs	39	44
	<u>1,372</u>	<u>1,638</u>

The average number of direct employees during the year was 8 (2005 - 7).

8. Taxation

	2006 £000	2005 £000
Current tax:		
UK Corporation tax on profits of the year	5,952	6,758
Adjustments in respect of prior year	470	(486)
Total current tax charge	<u>6,422</u>	<u>6,272</u>
Deferred tax:		
Origination and reversal of timing differences	—	1,809
Adjustments in respect of prior year	(51)	—
Total deferred tax (credit)/charge	<u>(51)</u>	<u>1,809</u>
Tax on profit on ordinary activities	<u>6,371</u>	<u>8,081</u>

Notes to the financial statements

at 31 October 2006

8. Taxation (continued)

The tax assessed for the year is greater than the standard rate applying in the UK (30%). The differences are explained below:

	2006 £000	2005 restated £000
Profits on ordinary activities before tax	14,628	22,476
Profit on ordinary activities multiplied by standard rate in the UK 30% (2005 - 30%)	4,388	6,743
Effects of:		
Expenses not deductible for tax purposes	1,564	1,824
Timing differences	—	(1,809)
Adjustments to tax charge in respect of prior years	470	(486)
Tax charge for current year	6,422	6,272

9. Provision for bad and doubtful debts

	2006			2005		
	Specific £000	General £000	Total £000	Specific £000	General £000	Total £000
Balance at beginning of year	—	—	—	2,617	2,150	4,767
Charged for the year	—	—	—	—	—	—
Recovered during the year	—	—	—	(2,545)	(2,150)	(4,695)
Loans written off during the year	—	—	—	—	—	—
Foreign exchange revaluation of non-sterling provision	—	—	—	(72)	—	(72)
Balance at end of year	—	—	—	—	—	—

Net profit on sale of Loans in the year was £ nil (2005 - £2,990,000).

10. Loans and advances to banks

	2006 £000	2005 £000
Remaining maturity:		
3 months or less, but not repayable on demand	243,000	331,000
Repayable on demand	330,799	213,479
	573,799	544,479

Included in loans and advances to banks are amounts owed by ultimate parent undertaking of £330,799,000 (2005 - £213,479,000) which are repayable on demand.

Notes to the financial statements

at 31 October 2006

11. Loans and advances to customers

	2006	2005
	£000	£000
<i>Remaining maturity:</i>		
Over 5 years	42,303	15,015
5 years or less, but over 1 year	103,519	17,351
1 year or less, but over 3 months	10,484	3,315
3 months or less, but not repayable on demand	146	148
	<u>156,452</u>	<u>35,829</u>
Provision for bad and doubtful debts (note 9)	—	—
	<u>156,452</u>	<u>35,829</u>

12. Fixed asset investment

	2006	2005
	£000	£000
Brought forward at 1 November	10,000	—
Additions	—	10,000
	<u>10,000</u>	<u>10,000</u>
Carried forward at 31 October	10,000	10,000

<i>Name of company</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
NG Luxembourg SA	Preference shares	2.5%	Financial investments

Notes to the financial statements

at 31 October 2006

13. Other assets

	2006 £000	2005 £000
Amount receivable from ultimate parent undertaking	125	41
Amount receivable from a fellow subsidiary in respect of group relief	557	903
Prepayments and accrued income	627	612
Corporation tax recoverable	2,290	3,079
Deferred tax asset	51	—
	<u>3,650</u>	<u>4,635</u>

	2006 £000	2005 £000
Deferred tax asset:		
Deferred tax asset at 1 November	—	1,809
Arising/(Utilised) in the year (note 8)	51	(1,809)
Deferred tax asset at 31 October	<u>51</u>	<u>—</u>

14. Deposits by banks

	2006 £000	2005 £000
Remaining maturity:		
Repayable on demand	294,911	158,173
	<u>294,911</u>	<u>158,173</u>

Included in deposits by banks are amounts due to ultimate parent undertaking of £294,019,942 (2005 - £57,869,000) and amounts due to parent undertaking of £891,221 (2005 - £100,304,000), which are repayable on demand.

15. Other liabilities

	2006 £000	2005 £000
Amounts owed to parent undertaking	1	34
Amounts owed to ultimate parent undertaking	647	318
Amount payable to a fellow subsidiary in respect of group relief	357	2,123
Accruals and deferred income	2,506	2,287
	<u>3,511</u>	<u>4,762</u>

Amounts owed to parent undertaking and to ultimate parent undertaking are repayable on demand and are non-interest bearing.

Notes to the financial statements

at 31 October 2006

16. Assets and liabilities in foreign currencies

The aggregate amounts of assets and liabilities on the balance sheet in foreign currencies were as follows:

	<i>Denominated in GBP £000</i>	<i>Denominated in other currencies £000</i>	<i>Total £000</i>
At 31 October 2006			
Assets	470,260	273,641	743,901
Liabilities	(422,143)	(321,758)	(743,901)
	<u>48,117</u>	<u>(48,117)</u>	<u>-</u>
At 31 October 2005			
Assets	454,912	140,031	594,943
Liabilities	(398,068)	(196,875)	(594,943)
	<u>56,844</u>	<u>(56,844)</u>	<u>-</u>

The mismatch between assets and liabilities in foreign currencies arises in the normal course of business.

Notes to the financial statements

at 31 October 2006

17. Share capital

	2006	2005
	US\$000	US\$000
Authorised		
100,000,000 (2005 - 100,000,000) ordinary shares of US\$1 each	100,000	100,000
500,000,000 (2005 - 500,000,000) redeemable preference shares of US\$1 each (classified as a liability under FRS 25)	500,000	500,000
	<u>600,000</u>	<u>600,000</u>
	£000	£000
500,000,000 (2005 - 500,000,000) redeemable preference shares of £1 each (classified as a liability under FRS 25)	<u>500,000</u>	<u>500,000</u>
Allotted and fully paid:		
	US\$000	US\$000
40,000,000 (2005 - 40,000,000) ordinary shares of US\$1 each	40,000	40,000
56,663,750 (2005 - 56,663,750) redeemable preference shares of US\$1 each (classified as a liability under FRS 25)	56,664	56,664
	<u>96,664</u>	<u>96,664</u>
	£000	£000
300,827,500 (2005 - 300,827,500) redeemable preference shares of £1 each (classified as a liability under FRS 25)	<u>300,828</u>	<u>300,828</u>
Movement in share capital during the year is as follows:		
	2006	2005
	£000	restated £000
Share capital at opening exchange rate	276,594	274,813
Translation difference on non-Sterling shares	(3,479)	1,781
Share capital at closing exchange rate	<u>273,115</u>	<u>276,594</u>

All redeemable preference shares (both £ and US\$) are redeemable at par on 31 October 2026 (or earlier if the directors so resolve).

In the event that it is resolved to distribute, by way of dividend, all or part of the profits, the holder of the redeemable preference shares (both £ and US\$) has the right to receive a variable non-cumulative preferential dividend at such rate to be determined by the issuer.

The redeemable preference shares (both £ and US\$) have attached to them the same rights regarding voting and payment on a winding up as are attached to ordinary shares.

The redeemable preference capital (both £ and US\$) are eligible for inclusion in tier 1 capital.

The redeemable preference share capital has been split-accounted with an equity component of £252,147,000 (2005 - £253,996,000) and a financial liability component of £117,744,000 (2005 - £112,530,000) as explained in Note 1 - Accounting Policies.

Notes to the financial statements

at 31 October 2006

18. Profit and loss reserve

	2006 £000
Balance brought forward	76,568
Prior year adjustment on change in accounting policy	(33,684)
Profit for the year	8,257
Translation differences on non-Sterling shares	3,479
	<u>54,620</u>

19. Reconciliation and analysis of shareholder's funds

	2006 £000	2005 restated £000
Opening Shareholder's funds	319,478	411,637
Adjustment to opening shareholder's funds on adoption of Presentation requirements of FRS 25:		
Classification of redeemable preference shares as financial liability	–	(106,554)
Restated opening shareholder's funds	<u>319,478</u>	<u>305,083</u>
Profit for the year attributable to shareholders	8,257	14,395
Closing shareholder's funds	<u>327,735</u>	<u>319,478</u>

20. Contingent liabilities and commitments

	2006 £000	2005 £000
Contingent Liabilities: Guarantees		
One year and over	7,790	6,616
Less than one year	–	2,293
	<u>7,790</u>	<u>8,909</u>
Commitments		
Undrawn committed facilities maturing:		
1 year and over	887,967	714,373
Less than 1 year	83,042	137,741
	<u>971,009</u>	<u>852,114</u>

Guarantees and undrawn facilities are contractual amounts that commit the company to extend credit to customers.

Notes to the financial statements

at 31 October 2006

21. Risk management

Objectives, policies and strategies

The principal financial risks faced by the company are credit risk, interest rate risk, liquidity risk and currency rate risk. A description of the significant risks associated with the Bank's activities is provided below.

TD Bank Europe Limited has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed by the Board. Instruments used for risk management purposes include derivative financial instruments ('derivatives'), which are contracts or agreements whose value is derived from one or more underlying prices, or rates inherent in the contract or agreement, such as interest rate and exchange rates.

The company uses matched funding with the ultimate parent undertaking to finance advances to customers. Interest rate risk with one particular loan is hedged through fixed to floating interest rate swaps with the parent entity.

Interest rate risk

The net interest income of the company is exposed to movements in interest rates. This exposure is managed on a continuous basis, within limits set by the Board, using a combination of on and off balance sheet instruments. After taking into account the various derivatives were entered into by the company, the interest rate sensitivity of the company (based on interest rate re-pricing) was:

	Less than 3 months £000	3 to 6 months £000	6 to 12 months £000	1 to 5 years £000	More than 5 years £000	Non- interest bearing £000	Total £000
At 31 October 2006							
Loans to banks	573,799	—	—	—	—	—	573,799
Loans to customers	119,522	36,930	—	—	—	—	156,452
Fixed asset investment	10,000	—	—	—	—	—	10,000
Other debtors	—	—	—	—	—	3,650	3,650
Total assets	703,321	36,930	—	—	—	3,650	743,901
Deposits by banks	(294,911)	—	—	—	—	—	(294,911)
Other liabilities	—	—	—	—	—	(3,511)	(3,511)
Liability component of redeemable pref shares	—	—	—	—	(117,744)	—	(117,744)
Share capital	—	—	—	—	—	(20,968)	(20,968)
Equity component of redeemable pref shares	—	—	—	—	—	(252,147)	(252,147)
Reserves	—	—	—	—	—	(54,620)	(54,620)
Total liabilities	(294,911)	—	—	—	(117,744)	(331,246)	(743,901)
Off balance sheet items	—	—	—	—	—	—	—
Interest rate sensitivity gap	408,410	36,930	—	—	(117,744)	(327,596)	—
Cumulative gap	408,410	445,340	445,340	445,340	327,596	—	—

Notes to the financial statements

at 31 October 2006

21. Risk management (continued)

Interest rate risk (continued)

	<i>Less than 3 months £000</i>	<i>3 to 6 months £000</i>	<i>6 to 12 months £000</i>	<i>1 to 5 years £000</i>	<i>More than 5 years £000</i>	<i>Non- interest bearing £000</i>	<i>Total £000</i>
At 31 October 2005 (restated)							
Loans to banks	544,479	–	–	–	–	–	544,479
Loans to customers	22,594	13,235	–	–	–	–	35,829
Fixed asset investment	10,000	–	–	–	–	–	10,000
Other debtors	–	–	–	–	–	4,635	4,635
Total assets	577,073	13,235	–	–	–	4,635	594,943
Deposits by banks	(158,173)	–	–	–	–	–	(158,173)
Other liabilities	–	–	–	–	–	(4,762)	(4,762)
Liability component of redeemable pref shares	–	–	–	–	(112,530)	–	(112,530)
Share capital	–	–	–	–	–	(22,598)	(22,598)
Equity component of redeemable pref shares	–	–	–	–	–	(253,996)	(253,996)
Reserves	–	–	–	–	–	(42,884)	(42,884)
Total liabilities	(158,173)	–	–	–	(112,530)	(324,240)	(594,943)
Off balance sheet items	–	–	–	–	–	–	–
Interest rate sensitivity gap	418,900	13,235	–	–	(112,530)	(319,605)	–
Cumulative gap	418,900	432,135	432,135	432,135	319,605	–	–

Liquidity risk

The company's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the company and to enable the company to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets and through management control of the growth of the business. The maturity profile of the company's assets and liabilities, based on contract maturity date or earliest available date on which repayment can be demanded where relevant, is set out in notes 10, 11 and 14.

Notes to the financial statements

at 31 October 2006

21. Risk management (continued)

Currency rate risk

The company's position with respect to foreign currency denominated assets, liabilities and share capital is broadly matched, as set out in Note 16.

Credit risk

The company's exposure to credit risk, excluding the value of collateral, is generally reflected in the carrying amounts of financial assets on the balance sheet.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The company uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approval, risk control limits and monitoring procedures.

22. Financial instruments

Fair value of financial assets and financial liabilities

Management considers that it is inappropriate to estimate the fair value of loans and advances to customers, because they are not listed or publicly traded and a readily observable value is not available.

Fair value of other financial assets and liabilities, excluding the assets described above, are considered to approximate their respective carrying values due to their short-term nature.

Derivative financial instruments

The principal derivatives used in balance sheet risk management are interest rate swaps which are used to hedge interest rate mismatches between assets and liabilities. The company only enters derivative contracts for the purposes of mitigating interest rate risk. Derivatives are not used in trading activity or for speculative purposes and all derivatives are therefore designated as hedging instruments. These hedges are accounted for on an accrual basis, in line with the underlying instruments being hedged. Any gains or losses that would occur if these instruments were carried at market value are therefore not recognised. All of the company's derivatives activity during the year was contracted with its ultimate parent, The Toronto-Dominion Bank.

Fair value of derivative financial instruments

The table below analyses the derivatives used to manage interest rate risk by type of contract and maturity and shows the nominal principal amount, credit risk weighted amount and replacement cost of contracts.

Notes to the financial statements

at 31 October 2006

22. Financial instruments (continued)

Nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The replacement cost represents the cost of replacing contracts with positive values, calculated at market rates current at the balance sheet date and reflects the company's exposure at that date should the counterparties default. The credit risk weighted amount, which is calculated according to guidelines specified by the Financial Services Authority, is based on the replacement cost, but also takes into account measures of the extent of potential future exposure and the nature of the counterparty.

	2006			2005		
	<i>Notional</i>	<i>Credit risk</i>	<i>Replacement</i>	<i>Notional</i>	<i>Credit risk</i>	<i>Replacement</i>
	<i>Amount</i>	<i>weighted</i>	<i>cost</i>	<i>amount</i>	<i>weighted</i>	<i>cost</i>
	<i>£000</i>	<i>amount</i>	<i>£000</i>	<i>£000</i>	<i>amount</i>	<i>£000</i>
Interest rate swaps:						
less than 1 year	—	—	—	—	—	—
between 1 and 5 years	2,117	2	—	506	1	—
over 5 years	—	—	—	2,253	6	—
	<u>2,117</u>	<u>2</u>	<u>—</u>	<u>2,759</u>	<u>7</u>	<u>—</u>

Fair values have been calculated for other financial instruments by discounting cash flows at prevailing interest and exchange rates:

The carrying amount of the Interest Rate Swaps and their fair value was:

	2006		2005	
	<i>Book value</i>	<i>Fair value</i>	<i>Book value</i>	<i>Fair value</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Assets/(liabilities): interest rate swaps				
31 October	(5)	(58)	(25)	(123)

Notes to the financial statements

at 31 October 2006

22. Financial instruments (continued)

Fair value of derivative financial instruments (continued)

All derivative contracts were entered into as hedging transactions supporting the non-trading banking book. Movements in the amount of unrecognised gains and losses on hedging instruments were as follows:

	2006		2005	
	<i>Unrecognised Gains</i>	<i>Unrecognised losses</i>	<i>Unrecognised gains</i>	<i>Unrecognised losses</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Balance at beginning of year	—	(123)	—	(299)
Gains and losses not recognised in the current year	—	65	—	176
Balance at end of year	—	(58)	—	(123)

23. Parent undertaking

The immediate parent company and the parent company of the smallest group of which the company forms part is Toronto Dominion Investments BV, which is incorporated in the Netherlands. Copies of the group financial statements may be obtained from: Atrium Gebouw, Strawinskylaan 3025, 1077 ZX, Amsterdam, The Netherlands.

The company's ultimate parent company, controlling party and the parent of the largest group to consolidate the financial statements of the company is The Toronto-Dominion Bank, which is incorporated in Canada. Copies of The Toronto-Dominion Bank's group financial statements may be obtained from: Finance Control Division, The Toronto Dominion Bank, PO Box 1, Toronto-Dominion Centre, King St W and Bay St, Toronto, Ontario M5K 1A2, Canada.