TD Bank Europe Limited

Report and Audited Financial Statements

31 October 2007 2734652

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COMPANIES HOUSE

Registered No 2734652

Directors

G Alder (Australian)
J White (British)
K Benko (Canadian)
T Tomovski (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 2007

Results and dividends

The company's results for the year are shown in the statutory profit and loss account on page 7 The profit on ordinary activities after taxation for the year was £13,910,041 (2006 £8,256,362)

No redeemable preference dividends were declared or paid during the year (2006 Nil) No dividend on ordinary shares was declared and none is proposed (2006 Nil)

Principal activity and review of the business

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

The key financial performance indicators during the year were as follows

	2007 £'000	2006 £'000	Change %
Net interest income	20,252	13,563	+49%
Operating profit	21,820	14,628	+49%
Profit after tax	13,910	8,257	+68%
Shareholders' funds	463,961	327,735	+42%

Net interest income increased in 2007 by 49% primarily due to an increase in the principal value of interest-bearing assets (both to corporate clients and bank deposits) combined with rising interest rates Operating profit increased accordingly

Principal risks and uncertainties

The financial risk management objectives and policies of the company are shown in notes 19 and 20 of the financial statements

Future developments

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

Events since the balance sheet date

The directors are not aware of any events subsequent to the year end that would affect the financial statements

Directors and their interests

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

G Alder (Australian)	-	Managing Director and Chairman
J White (British)	-	Legal and Compliance Director
K Benko (Canadian)	-	Director
T Tomovski (Canadian)	-	Finance Director
J Stewart (British)	-	Director
E Merica (British)	-	Non-Executive Director

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

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

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.

On behalf of the board

T Tomovski

Director

31 January, 2008

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions

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 2007 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 21 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 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London

31 January, 2008

Profit and loss account

for the year ended 31 October 2007

	Notes	2007 £000	2006 £000
Interest receivable and similar income	2	31,439	24,709
Interest payable and similar charges	3	(11,187)	(11,146)
Net interest income		20,252	13,563
Net gain / (loss) on derivatives		14	–
Dividend income		232	509
Fees and commissions receivable	4	2,446	2,430
Operating income		22,944	16,502
Administrative expenses		(1,588)	(1,980)
FX gain		643	767
Other operating expenses		(179)	(661)
Operating profit	5	21,820	14,628
Profit on ordinary activities before taxation		21,820	14,628
Tax on profit on ordinary activities	8	(7,910)	(6,371)
Retained profit for the financial year	17	13,910	8,257

The above results are derived solely from continuing operations

The notes on pages 10 to 27 form an integral part of the financial statements

Statement of total recognised gains and losses

for the year ended 31 October 2007

	Notes	2007 £000	2006 £000
Profit for the financial year		13,910	8,257
Total recognised gains and losses relating to the year		13,910	8,257
Translation differences on non-Sterling share capital	16	4,182	3,479
Prior year adjustment on change in accounting policy on adoption of presentation requirements of FRS 25		-	(33,684)
Reversal of interest cost of preference shares on reclassification from financial liability to equity	17	43,969	-
Fair value adjustment on derivative financial instruments on adoption of FRS 26	20	(53)	-
Tax impact of fair value adjustment on derivative financial instruments on adoption of FRS 26	12 / 20	16	-
Total gains and losses recognised since last annual report		62,024	(21,948)

The notes on pages 10 to 27 form an integral part of the financial statements

Balance sheet

at 31 October 2007

	Notes	*2007* *£000*	*2006* *£000*
Assets			
Loans and advances to banks	9	647,106	573,799
Loans and advances to customers	10	214,407	156,452
Fixed asset investment	11	–	10,000
Other assets	12	3,846	3,650
Total assets		**865,359**	**743,901**
Liabilities			
Deposits by banks	13	397,871	294,911
Other liabilities	14	3,527	3,511
Liability component of redeemable preference shares	16	–	117,744
Total Liabilities		401,398	416,166
Shareholder's funds			
Called up share capital	16	347,317	20,968
Equity component of redeemable preference shares	16	–	252,147
Profit and loss account	17	116,644	54,620
Total shareholder's funds	17	463,961	327,735
Total liabilities and shareholder's funds		**865,359**	**743,901**
Memorandum items			
Commitments. Undrawn committed facilities	18	715,097	971,009

The financial statements were approved by the directors on 31 January, 2008 and signed on their behalf by

T Tomovski
Director

The notes on pages 10 to 27 form an integral part of these financial statements

Notes to the financial statements

at 31 October 2007

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 31 January, 2008

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 the following new Financial Reporting Standard (FRS) for the first time

- FRS 23 "Effects of Changes in Foreign Exchange Rates",
- FRS 24 "Financial Reporting In Hyperinflationary Economies",
- Disclosure requirements of FRS 25 "Financial Instruments Disclosure and Presentation", and
- FRS 26 "Financial Instruments Recognition and Measurement"

FRS 23and FRS 24 has had no material effect on the financial statements for the current year or prior period FRS 25 requires disclosures that enable users to evaluate the significance of the company's financial instruments and the nature and extent of risks arising from those financial instruments The new disclosures are included throughout the financial statements

FRS 26 deals with establishing principles for measurement of financial assets and financial liabilities The company was previously valuing its derivative products and loans and receivables on an accrual basis where the time value of money was significant The company is now valuing its derivative products at fair value through the profit and loss account Consequently, adjustments were required to the profit and loss reserve for the opening fair value adjustment at 1st November 2006 Comparatives have not been restated as permitted by FRS 26 The disclosure requirements necessitated by FRS 26 have been included in the financial statements where applicable

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

Dividend Income

Dividend income represents gross dividends received on fixed asset investments

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 company 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 Treasury Bills in Europe Commission income is accrued as it is earned

Notes to the financial statements

at 31 October 2007

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 at amortised cost using the effective interest rate method 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, fees receivable and commission receivable 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 assets

Financial assets are recognised when the company becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit or loss, loans and receivables, held-to maturity investments, or as available-for-sale financial assets, as appropriate The company determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year-end When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs

All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the company commits to purchase or sell the asset Regular way transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place The subsequent measurement of financial assets depends on their classification, as follows

Notes to the financial statements

at 31 October 2007

1. Accounting policies (continued)

Financial assets at fair value through profit or loss

Financial assets classified as held for trading and other assets designated as such on inception are included in this category Financial assets are classified as held for trading if they are acquired for sale in the short term Derivatives are classified as held for trading Assets are carried in the balance sheet at fair value with gains or losses recognised in the profit and loss account

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the company has the positive intention and ability to hold to maturity Held to maturity investments are carried at amortised cost using the effective interest method Gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process Investments intended to be held for an undefined period are not included in this classification

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available for sale Such assets are carried at amortised cost using the effective interest method if the time value of money is significant Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as such or are not classified in any of the three preceding categories After initial recognition, available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the profit and loss account

Fair values

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date Where there is no active market, fair value is determined using valuation techniques These include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and pricing models Otherwise assets will be carried at cost

Impairment of financial assets

The company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i e the effective interest rate computed at initial recognition) The carrying amount of the asset is reduced, with the amount of the loss recognised in administration costs

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed Any subsequent reversal of an impairment loss is recognised in the profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date

Notes to the financial statements

at 31 October 2007

1. Accounting policies (continued)

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its fair value is transferred from equity to the profit and loss account Reversals of impairment losses on debt instruments are reversed through the profit and loss account, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss Reversals in respect of equity instruments classified as available-for-sale are not recognised in the profit and loss account

Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss

Derivative financial instruments and hedging

From 1 November 2006, derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative The fair value of interest rate swap contracts is determined by reference to market values for similar instruments

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 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

Notes to the financial statements

at 31 October 2007

1. Accountıng policies (contınued)

Segmental ınformatıon

The sole class of busıness of the company durıng the year was corporate bankıng The sole geographıcal segment from whıch the company's corporate bankıng ıncome ıs generated ıs Europe Consequently, no segmental analysıs of the company's revenue and assets ıs requıred

Classificatıon of shares as debt or equıty

An equıty ınstrument ıs a contract that evıdences a resıdual ınterest ın the assets of an entıty after deductıng all ıts lıabılıtıes Accordıngly, a financıal ınstrument ıs treated as equıty ıf

(ı) there ıs no contractual oblıgatıon to delıver cash or other financıal assets or to exchange financıal assets or lıabılıtıes on terms that may be unfavourable, and

(ıı) the ınstrument ıs a non-derıvatıve that contaıns no contractual oblıgatıons to delıver a varıable number of shares or ıs a derıvatıve that wıll be settled only by the company exchangıng a fixed amount of cash or other assets for a fixed number of the company's own equıty ınstruments

When shares are ıssued, any component that creates a financıal lıabılıty of the company ıs presented as a lıabılıty ın the balance sheet, measured ınıtıally at faır value net of transactıon costs and thereafter at amortısed cost untıl extınguıshed on conversıon or redemptıon The correspondıng dıvıdends relatıng to the lıabılıty component are charged as ınterest expense ın the profit and loss account The ınıtıal faır value of the lıabılıty component ıs determıned usıng a market rate for an equıvalent lıabılıty wıthout a conversıon feature

The remaınder of the proceeds on ıssue ıs allocated to the equıty component and ıncluded ın shareholders' equıty, net of transactıon costs The carryıng amount of the equıty component ıs not re-measured ın subsequent years

Transactıon costs are apportıoned between the lıabılıty and equıty components of the shares based on the allocatıon of proceeds to the lıabılıty and equıty components when the ınstruments are first recognısed

2 Interest receıvable and similar income

	2007	*2006*
	£000	*£000*
Interest receıvable on loans and advances to customers	7,661	3,551
Interest receıvable on loans and advances to banks	14,512	13,521
Interest receıvable from ultımate parent undertakıng	9,254	7,637
Other ınterest receıvable	12	–
	31,439	24,709

Notes to the financial statements

at 31 October 2007

3 Interest payable and similar charges

	2007 £000	2006 £000
Interest payable to immediate parent undertaking	149	2,854
Other interest payable to ultimate parent undertaking	5,861	2,311
Interest cost on financial liability component of redeemable preference shares	5,177	5,981
	11,187	11,146

4. Fees and commissions receivable

	2007 £000	2006 £000
Loan commitment fees receivable	540	556
Other fees receivable	704	198
Other income from ultimate parent undertaking, including commissions	1,202	1,676
	2,446	2,430

5. Operating profit

Operating profit is stated after charging/ (crediting)

	2007 £000	2006 £000
Other charges payable to ultimate parent undertaking	132	438
FX gain	(643)	(767)
Auditor's remuneration - audit services	42	39

6. Directors' emoluments

	2007 £000	2006 £000
Emoluments	10	10

No pension contributions under either a defined contribution or defined benefit scheme were accrued for any director in 2007 (2006 Nil) in respect of their role with the company

During the year, no director was advanced a loan (2006 Nil) in respect of their role with the company

Notes to the financial statements

at 31 October 2007

7. Employees

	2007 £000	2006 £000
Wages and salaries	967	1,122
Social security costs	136	211
Other pension costs	42	39
	1,145	1,372

The average number of direct employees during the year was 10 (2006 8)

8. Taxation

	2007 £000	2006 £000
Current tax.		
UK Corporation tax on profits for the year	7,835	5,952
Adjustments in respect of prior year	56	470
Total current tax charge	7,891	6,422
Deferred tax:		
Origination and reversal of timing differences	62	–
Adjustments in respect of prior year	(43)	(51)
Total deferred tax charge/(credit)	19	(51)
Tax on profit on ordinary activities	7,910	6,371

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

	2007 £000	2006 £000
Profits on ordinary activities before tax	21,820	14,628
Profit on ordinary activities multiplied by standard rate in the UK is 30% (2006 30%)	6,546	4,388
Effects of		
Expenses not deductible for tax purposes	1,351	1,564
Timing differences	(62)	–
Adjustments to tax charge in respect of prior years	56	470
Tax charge for current year	7,891	6,422

On 26 June 2007 the Finance Act 2007 was substantively enacted through Parliament This brought about a reduction in the corporation tax rate with effect from 1 April 2008 The effect of this change in the tax rate has no material impact on the deferred tax asset held by the company

Notes to the financial statements

at 31 October 2007

9. Loans and advances to banks

	2007 £000	2006 £000
Remaining maturity		
3 months or less, but not repayable on demand	204,000	243,000
Repayable on demand	443,106	330,799
	647,106	573,799

Included in loans and advances to banks are amounts owed by ultimate parent undertaking of £443,105,573 (2006 £330,798,982) which are repayable on demand

10. Loans and advances to customers

	2007 £000	2006 £000
Remaining maturity		
Over 5 years	50,779	42,303
5 years or less, but over 1 year	116,987	103,519
1 year or less, but over 3 months	46,490	10,484
3 months or less, but not repayable on demand	151	146
	214,407	156,452

11. Fixed asset investment

	2007 £000	2006 £000
Cost		
Brought forward at 1 November	10,000	10,000
Disposal	(10,000)	–
Carried forward at 31 October	–	10,000

During the year National Grid Luxembourg S A redeemed at par the 2 5% voting preference shares held by the company at par

Notes to the financial statements

at 31 October 2007

12. Other assets

	2007 £000	2006 £000
Amount receivable from ultimate parent undertaking	116	125
Amount receivable from a fellow subsidiary	557	557
Prepayments and accrued income	653	627
Fair value of derivative financial instruments	1,311	–
Corporation tax recoverable	1,161	2,290
Deferred tax asset	48	51
	3,846	3,650

	2007 £000	2006 £000
Deferred tax asset:		
Deferred tax asset at 1 November	51	–
Timing difference on fair value adjustment on adoption of FRS 26 recognised in equity	16	–
Arising/(Utilised) in the year (note 8)	(19)	51
Deferred tax asset at 31 October	48	51

13 Deposits by banks

	2007 £000	2006 £000
Remaining maturity:		
Repayable on demand	397,871	294,911

Included in deposits by banks are amounts due to ultimate parent undertaking of £396,657,614 (2006 £294,019,942) and amounts due to parent undertaking of £1,213,225 (2006 £891,221), which are repayable on demand

14. Other liabilities

	2007 £000	2006 £000
Amounts owed to parent undertaking	2	1
Amounts owed to ultimate parent undertaking	505	647
Amount owed to a fellow subsidiary	357	357
Accruals and deferred income	1,314	2,506
Fair value of derivative financial instruments	1,349	–
	3,527	3,511

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 2007

15. Assets and liabilities in foreign currencies

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

	Denominated in GBP	*Denominated in other currencies*	*Total*
	£000	*£000*	*£000*
At 31 October 2007			
Assets	477,057	388,302	865,359
Liabilities and shareholders' funds	(430,580)	(434,779)	(865,359)
	46,477	(46,477)	–
At 31 October 2006			
Assets	470,260	273,641	743,901
Liabilities and shareholders' funds	(422,143)	(321,758)	(743,901)
	48,117	(48,117)	–

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

16. Share capital

	2007	*2006*
Authorised	*US$000*	*US$000*
100,000,000 (2006 100,000,000) ordinary shares of US$1 each	100,000	100,000
500,000,000 (2006 500,000,000) redeemable preference shares of US$1 each	500,000	500,000
	600,000	600,000
	£000	*£000*
500,000,000 (2006 500,000,000) redeemable preference shares of £1 each	500,000	500,000
Allotted and fully paid·	*US$000*	*US$000*
40,000,000 (2006 40,000,000) ordinary shares of US$1 each	40,000	40,000
56,663,750 (2006 56,663,750) redeemable preference shares of US$1 each classified as equity (2006 financial liability) under FRS 25	56,664	56,664
	96,664	96,664
	£000	*£000*
GBP equivalent @ 2 0793 (2006 1 9077)	46,489	50,671
	£000	*£000*
300,827,500 (2006 300,827,500) redeemable preference shares of £1 each classified as equity (2006 financial liability) under FRS 25	300,828	300,828

Notes to the financial statements

at 31 October 2007

16. Share capital (continued)

All redeemable preference shares (both £ and US$) are redeemable at par on 31 October 2026 (or earlıer ıf the dırectors so resolve)

In the event that ıt ıs resolved to dıstrıbute, by way of dıvıdend, all or part of the profits, the holder of the redeemable preference shares (both £ and US$) has the rıght to receıve a varıable non-cumulatıve preferentıal dıvıdend at such rate to be determıned by the ıssuer

The redeemable preference shares (both £ and US$) have attached to them the same rıghts regardıng votıng and payment on a wındıng up as are attached to ordınary shares

The redeemable preference capıtal (both £ and US$) are elıgıble for ınclusıon ın tıer 1 capıtal

On 28 August 2007, the company altered ıts Artıcles of Assocıatıon governıng the preference shares, wıth the approval of holders of preference shares The preference shares are now redeemable at the dıscretıon of the ıssuer, and are now classıfied entırely as equıty ınstruments, as the contractual oblıgatıon to repay at the holder's dıscretıon no longer exısts Accordıngly an ınterest cost of £5,177,485 (2006 £5,980,869) was recognısed ın the profit and loss account (as set out ın note 3) up to the date at whıch the Artıcles of Assocıatıon were amended An adjustment of £43,969,081 was made to the closıng reserves to reflect the reversal of the ınterest cost of the lıabılıty up to 28 August 2007 for the current year and ın prıor years The financıal lıabılıty at 28 August 2007 of £122,353,000 was reclassıfied to equıty

As at 31 October 2006, the redeemable preference share capıtal had been splıt-accounted wıth an equıty component of £252,147,000 and a financıal lıabılıty component of £117,744,000 as dısclosed ın the balance sheet

Notes to the financial statements

at 31 October 2007

17. Reconciliation and analysis of shareholder's funds

Year ended 31 October 2007

	Profit and Loss Reserve £000	Ordinary Shares Capital £000	Preference Shares (Equity) £000	**Shareholders Funds £000**	Preference Shares (Financial Liability) £000
Opening balances as at 1 November 2006	54,620	20,968	252,147	**327,735**	117,744
FX gain on opening balances					
- Equity	4,182	(1,731)	(2,451)	-	-
- Financial Liability	-	-	-	-	(568)
Interest cost on financial liability component of redeemable preference shares (note 3)	-	-	-	-	5,177
Reclassification of preference shares from financial liability to equity (note 16)					
- financial liability	-	-	122,353	**122,353**	(122,353)
- reversal of interest cost	43,969	-	(43,969)	-	-
Fair value adjustment on derivative financial instruments on adoption of FRS 26 (note 20)	(37)	-	-	**(37)**	-
Profit for the financial year	13,910	-	-	**13,910**	-
Closing balances as at 31 October 2007	116,644	19,237	328,080	**463,961**	-

Notes to the financial statements

at 31 October 2007

17. Reconciliation and analysis of shareholder's funds (continued)

Year ended 31 October 2006

	Profit and Loss Reserve £000	Ordinary Shares Capital £000	Preference Shares (Equity) £000	**Shareholders Funds £000**	Preference Shares (Financial Liability) £000
Opening balances as at 1 November 2005	42,884	22,598	253,996	**319,478**	112,530
FX gain on opening balances - Equity	3,479	(1,630)	(1,849)	-	-
FX gain on financial liability	-	-	-	-	(767)
Interest cost on financial liability component of redeemable preference shares (see note 3)	-	-	-	-	5,981
Profit for the financial year	8,257	-	-	**8,257**	-
Closing balances as at 31 October 2006	54,620	20,968	252,147	**327,735**	117,744

18. Commitments

	2007 £'000	*2006 £'000*
Undrawn committed facilities maturing		
1 year and over	632,286	887,967
Less than 1 year	82,811	83,042
	715,097	971,009

Undrawn facilities are contractual amounts that commit the company to extend credit to customers

Notes to the financial statements

at 31 October 2007

19. 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 company'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

Interest rate risk profile of financial assets and liabilities

The interest rate profile of the financial assets and liabilities of the company as at 31 October 2007 is as follows

At 31 October 2007	*Within 1 year £000*	*1 to 2 years £000*	*2 to 3 years £000*	*3 to 4 years £000*	*4 to 5 years £000*	More *than 5 years £000*	*Total £000*
Fixed rate							
Loans to customers	1,192	–	–	–	–	–	1,192
Other liabilities	(1,349)	–	–	–	–	–	(1,349)
	(157)	–	–	–	–	–	(157)
Floating rate							
Loans to banks	647,106	–	–	–	–	–	647,106
Loans to customers	194,193	15,815	3,207	–	–	–	213,215
Other debtors	1,311	–	–	–	–		1,311
Deposits by banks	(397,871)	–	–	–	–	–	(397,871)
	444,739	15,815	3,207	–	–	–	463,761
Interest rate sensitivity gap	444,582	15,815	3,207	–	–	–	463,604
Off balance sheet items	82,811	71,180	127,415	87,143	231,250	115,298	715,097
Cumulative interest rate sensitivity gap	527,393	86,995	130,622	87,143	231,250	115,298	1,178,701

Notes to the financial statements

at 31 October 2007

19. Risk management (continued)

Interest rate risk profile of financial assets and liabilities (continued)

The interest rate profile of the financial assets and liabilities of the company as at 31 October 2006 is as follows

At 31 October 2006	*Within 1 year £000*	*1 to 2 years £000*	*2 to 3 years £000*	*3 to 4 years £000*	*4 to 5 years £000*	More *than 5 years £000*	*Total £000*
Fixed rate							
Loans to customers	2,117	–	–	–	–	–	2,117
Liability component of redeemable pref shares	–	–	–	–	–	(117,744)	(117,744)
Other liabilities	(46)	–	–	–	–	–	(46)
	2,071	–	–	–	–	(117,744)	(115,673)
Floating rate							
Loans to banks	573,799	–	–	–	–	–	573,799
Loans to customers	117,405	36,930	–	–	–	–	156,452
Fixed asset investment	10,000	–	–	–	–		10,000
Other debtors	41	–	–	–	–		41
Deposits by banks	(294,911)	–	–	–	–	–	(294,911)
	406,334	36,930	–	–	–	–	443,264
Interest rate sensitivity gap	408,405	36,930	–	–	–	(117,744)	327,591
Off balance sheet items	83,042	188,674	96,965	322,926	115,330	164,072	971,009
Cumulative interest rate sensitivity gap	491,447	225,604	96,965	322,926	115,330	46,328	1,298,600

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year
Interest on financial instruments classified as fixed rate is fixed until the maturity of he instrument
The other financial instruments of the company that are not included in the above tables are non-interest bearing and therefore not subject to interest rate risk

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 9, 10 and 13

Notes to the financial statements

at 31 October 2007

19. Risk management (continued)

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

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 15

20. 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

Derivatives are not used in trading activity or for speculative purposes The company only enters into a derivative contract for the purpose of mitigating risks 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 Hedges entered into by the company which provide economic hedges but do not meet the hedge accounting criteria are treated as fair value through profit and loss All 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

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

Notes to the financial statements

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20. Financial instruments (continued)

Fair value of derivative financial instruments (continued)

	2007 Notional Amount £000	*2007* Credit risk weighted amount £000	*2007* Replacement cost £000	*2006* Notional amount £000	*2006* Credit risk weighted amount £000	*2006* Replacement cost £000
Interest rate swaps						
less than 1 year	–	–	–	–	–	–
between 1 and 5 years	1,192	1	–	2,117	2	–
over 5 years	–	–	–	–	–	–
	1,192	1	–	2,117	2	-

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

	2007 Book value £000	*2007* Fair value £000	*2006* Book value £000	*2006* Fair value £000
Assets				
Fair value of derivative financial instruments	1,311	1,311	-	-
Prepayments & accrued income	-	-	41	2,370
Liabilities				
Fair value of derivative financial instruments	(1,349)	(1,349)	-	-
Accruals & deferred income	-	-	(46)	(2,428)
	(38)	(38)	(5)	(58)

IAS 39 requires that all derivatives be recognised at fair value in the balance sheet Consequently interest rate contracts with a positive fair value of £2,370,461 and interest rate contracts with negative fair value of £2,428,028 have been recognised in the balance sheet as at 1 November 2006 Under the previous accounting standards, prior year notional balances were netted and the accrued interest receivable and payable recognised separately in the balance sheet

Notes to the financial statements

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21. 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