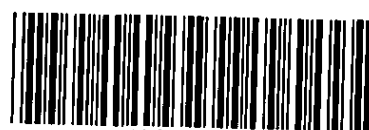


ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC
FINANCIAL STATEMENTS
31 DECEMBER 2006

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Company Registration Number 1533123

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC
FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

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ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

OFFICERS AND PROFESSIONAL ADVISERS

THE BOARD OF DIRECTORS

R L Banks
M W Evans
B P Glover
C R Morley
R L Towers
C S Jones

COMPANY SECRETARY

R A Hawker

REGISTERED OFFICE

Carlton Park
Narborough
Leicester
LE19 0AL

AUDITOR

Deloitte & Touche LLP
Chartered Accountants
& Registered Auditors
Manchester

BANK

Alliance & Leicester plc
Bridle Road
Bootle
Merseyside
GIR 0AA

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

THE DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2006

The directors have pleasure in presenting their report and the audited financial statements of the company for the year ended 31 December 2006

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The company's principal activity continued to be those of lessors and financiers of assets in the corporate, commercial and public sectors

As shown in the company's profit and loss account on page 9 the company's profit on ordinary activities before taxation increased significantly during the year compared to the prior year

The balance sheet on page 11 shows that the net assets of the company increased during the year. Details of amounts owed to group undertakings at 31 December 2006 are shown in note 18 to the financial statements and details of amounts owed by subsidiary undertakings at 31 December 2006 are shown in note 15 to the financial statements

Alliance & Leicester plc manages its operations on a divisional basis. For this reason, the company's directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Commercial Bank division of Alliance & Leicester plc, which includes the company, is discussed in the group's Annual Report which does not form part of this Report

Principal risks and uncertainties

The company manages its risk in line with the Group's risk management policy and control framework which is disclosed in the group's Annual Report

The financial risks of the company are managed by the Group Treasury function of the ultimate parent company, Alliance & Leicester plc

The company is mainly financed by loans from other group undertakings and the level of the third party debt is not considered to be material

The residual values included in the net book value of operating lease assets are disclosed in note 12 and the residual values of finance agreements included in the net investment in finance agreements are disclosed in note 16. Residual values are reviewed for impairment and an appropriate provision is recognised in the profit and loss account

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2006

Environment

The Alliance & Leicester plc group recognises that it has a responsibility to act in a way that respects the environment. The company operates in accordance with group policies which are described in the group's Annual Report which does not form part of this report.

Employees

The Group's business strategy seeks the understanding and commitment of all staff to becoming "the most customer focused financial services provider in the UK - bar none". The Alliance & Leicester Group Intranet not only keeps employees of Alliance & Leicester Commercial Finance plc up to date with business related information but also provides staff with the facility to ask a question on any subject related to the company. An annual employee opinion survey is sent to all staff, asking their views on each of the categories surveyed - Communications, Leadership & Involvement, Morale & Commitment, Development, Working Environment and Customer Focus.

The Group is keen to provide employees with a range of training and development courses to ensure that they have the knowledge and skills necessary to carry out their responsibilities effectively, and to fulfil their career potential within the business.

The Group encourages the involvement of employees in the performance of the Company through the employee ShareSave and Share Incentive Plan schemes.

The Company recognises the right of every employee to be treated with dignity and respect at work. Working with our union representatives we have produced and promoted a policy to ensure that any problems are dealt with promptly and with sensitivity. We take our responsibilities under the Disability Discrimination Act 1995 very seriously and ensure all reasonable measures are taken to enable customers and potential customers to access the full range of Group products and services at all our premises within the timescales as defined within the Act. Our Equal Opportunities policy commits us to removing barriers which would prevent the employment of disabled people and to implement all reasonable measures to ensure disabled staff can effectively carry out their jobs.

The Company recognises the potential that all people bring to the workplace regardless of sex, race, ethnic or national origin, religious belief, marital status, disability or sexual orientation. As part of that philosophy and in keeping with our values, we believe that every employee should be treated with the same respect and dignity.

In 2004 an "Equal Opportunities and You" booklet was distributed to all employees, containing information on equal opportunities issues.

Disabled employees

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2006

Policy on the payment of creditors

The Alliance & Leicester plc Group is a signatory of the DTI's Better Payment Practice Code. Information regarding this code and its purpose can be obtained from the Better Payment Practice Group's website at www.payontime.co.uk

It is Group policy to

- i) agree the terms of payment at the start of business with each supplier
- ii) ensure suppliers are aware of the payment terms
- iii) pay in accordance with any contractual and other legal obligations

Trade creditor days of the Company for the year ended 31 December 2006 was 7 days (2005 7 days), based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £42,709,000. Particulars of dividends paid are detailed in note 10 to the financial statements.

DIRECTORS

The directors who served the company during the year were as follows

R L Banks	
M W Evans	
B P Glover	
C R Morley	
A B Swann	(Resigned 5 April 2007)
R L Towers	
C S Jones	(Appointed 20 March 2006)

Each of the persons who is a director at the approval of this report confirms that

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- (2) the 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 company's auditors are aware of that information

This confirmation is given in accordance with the provisions of s234ZA of the Companies Act 1985

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2006

DISCLOSURE OF INDEMNITIES

The directors confirm that under S 309A of the Companies Act -

a) at the time this Directors' Report is signed a qualifying third party indemnity provision (provided by the ultimate parent company Alliance & Leicester plc) is in force for the benefit of all the directors of the company and,

b) for the financial year ended 31 December 2006 a qualifying third party indemnity provision (provided by the ultimate parent company Alliance & Leicester plc) was in force for the benefit of all the directors of the company

The directors confirm that under S310 of the Companies Act there is no qualifying third party indemnity provision for one or more directors of an associated company either on the date the Directors' Report is signed or in the last financial year

AUDITOR

A resolution to re-appoint Deloitte & Touche LLP as the Company's auditors will be proposed at the forthcoming Annual General Meeting

Signed on behalf of the directors



C R Morley
Director

Approved by the directors on 25 July 2007

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES

YEAR ENDED 31 DECEMBER 2006

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 year. In preparing these 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,
- 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 that disclose with reasonable accuracy at any time the financial position of the company and 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 AUDITOR'S REPORT TO THE MEMBERS OF ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

We have audited the financial statements of Alliance & Leicester Commercial Finance plc for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 25. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom 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 (United Kingdom 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 other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (United Kingdom 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 judgements 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 AUDITOR'S REPORT TO THE MEMBERS OF
ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC** *(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 December 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

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants & Registered Auditors
Manchester

26 July 2007

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2006

	Note	2006 £000	2005 £000
Turnover	2	118,097	78,524
Cost of sales		(1,090)	(709)
Gross profit		117,007	77,815
Administrative expenses		(10,895)	(10,356)
Operating profit	3	106,112	67,459
Profit on disposal of subsidiary undertaking		15,166	3,432
		121,278	70,891
Income from shares in group undertakings	6	14,775	—
Interest receivable and similar income	7	5,440	7,499
Interest payable and similar charges	8	(91,888)	(72,351)
Profit on ordinary activities before taxation		49,605	6,039
Tax on profit on ordinary activities	9	(6,896)	487
Profit for the financial year		42,709	6,526
Balance brought forward		62,670	56,144
Equity dividends paid		(30,000)	—
Balance carried forward		75,379	62,670

All of the activities of the company are classed as continuing

The notes on pages 12 to 28 form part of these financial statements

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
YEAR ENDED 31 DECEMBER 2006

	2006	2005
	£000	£000
Profit for the financial year attributable to the shareholders	42,709	6,526
Adoption of FRS 20 "Share-based payments "	<u>—</u>	<u>(361)</u>
Total gains and losses recognised since the last annual report	<u>42,709</u>	<u>6,165</u>

The notes on pages 12 to 28 form part of these financial statements

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

BALANCE SHEET

31 DECEMBER 2006

	Note	£000	2006 £000	£000	2005 £000
Fixed assets					
Intangible assets	11		2,297		2,427
Tangible assets	12		11,137		4,902
Investments	13		88,688		9,393
			<u>102,122</u>		<u>16,722</u>
Current assets					
Stocks	14	2,675		–	
Debtors due within one year	15	1,945,441		1,995,473	
Debtors due after one year	15	1,810,293		1,171,181	
		<u>3,758,409</u>		<u>3,166,654</u>	
Creditors: Amounts falling due within one year	18	<u>(3,685,272)</u>		<u>(3,098,825)</u>	
Net current assets			73,137		67,829
Total assets less current liabilities			<u>175,259</u>		<u>84,551</u>
Creditors: Amounts falling due after more than one year	19		(79,223)		(1,224)
Net assets			<u>96,036</u>		<u>83,327</u>
Capital and reserves					
Called-up equity share capital	23		20,657		20,657
Profit and loss account			75,379		62,670
Equity shareholders' funds	24		<u>96,036</u>		<u>83,327</u>

These financial statements were approved by the directors on the 25 July 2007 and are signed on their behalf by


C R Morley
Director

The notes on pages 12 to 28 form part of these financial statements

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

1. Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards

The principal accounting policies are summarised below. They have been applied consistently throughout the current and preceding year

The company has complied with the Statement of Recommended Practice on Accounting Issues in the Asset Finance and Leasing Industry, issued by the Finance and Leasing Association

Consolidation

The company was, at the end of the year, a wholly-owned subsidiary of another company incorporated in the EEA and in accordance with Section 228 of the Companies Act 1985, is not required to produce, and has not published, consolidated accounts

Cash flow statement

Under Financial Reporting Standard No 1 (revised 1996) "Cash flow statements" the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

Related parties transactions

The company has taken advantage of the exemption offered by Financial Reporting Standard 8 "Related party disclosures" and is therefore not required to disclose transactions with other group companies

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

1. Accounting policies *(continued)*

Finance and rental agreements

In accordance with Statement of Standard Accounting Practice No 21, "Accounting for leases and hire purchase contracts", the minimum lease payments receivable from finance lease and other finance agreements, less appropriate future income arising from finance charges, are included in debtors

Assets acquired for the purpose of renting out under operating lease agreements are capitalised and depreciated in accordance with the accounting policy set out below

Turnover comprises

Finance agreements the income component of repayments which are credited to the profit and loss account using methods which produce a constant rate of return on the net cash investment

Operating lease agreements accounting rentals recognised on a straight line basis over the period of the lease

Provisions for bad and doubtful debts a charge equal to the losses written off in the year, recoveries and the movement in provisions

Cost of sales relates to

Operating lease agreements depreciation of operating lease assets

Intangible fixed assets

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Brand names - straight line over 20 years

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

1. Accounting policies *(continued)*

Depreciation

The cost of additions and improvements to office premises, plant, fixtures, equipment and motor vehicles is capitalised. The cost of fixed assets less estimated residual value, is written off on a straight line basis over the estimated useful lives as follows:

Leasehold buildings	over the remainder of the lease up to 75 years
Fixtures and major alterations	10 to 15 years
Plant, equipment and motor vehicles	3 to 9 years

Software development costs are capitalised where they meet the criteria set out in FRS 15 "Tangible Fixed Assets". Capitalised costs are amortised on a straight line basis over the useful economic life of the software, normally between 1 and 5 years.

Depreciation is provided on operating lease assets at rates calculated to write off the cost of the assets, less estimated residual value, over their useful economic lives using methods which allocate depreciation charges on a systematic basis to the periods which are expected to benefit from their use.

Assets are regularly reviewed for impairment in accordance with Financial Reporting Standard No 11 "Impairment of fixed assets and goodwill". When an asset's carrying value has been impaired the amount is charged to the profit and loss account in the year of impairment.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Finance lease agreements

Assets acquired under finance leases are capitalised at fair value at the start of the lease, with the corresponding obligations being included in other liabilities. The finance lease costs charged to the income statement are based on a constant periodic rate as applied to the outstanding liabilities.

Pension costs

Employees are entitled to become members of the pension scheme operated by the parent undertaking, Alliance & Leicester plc. Alliance & Leicester plc operates both defined benefit and defined contribution pension arrangements. Under the defined benefit section the cost of providing pensions is charged to the profit and loss account so as to spread the costs evenly over the employees' working lives. The difference between the charge to the profit and loss account and the contributions paid to the scheme is shown as an asset or liability in the balance sheet. Assets of the defined contribution section are held separately in an independently administered fund. Contributions to the scheme are charged to the profit and loss account as they fall due. Further details are disclosed in the group report and accounts for Alliance & Leicester plc.

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

1 Accounting policies (continued)

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rate and the laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax

Deferred tax assets are recognised only to the extent that the directors consider that it is 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 is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted at the balance sheet date

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date or, if hedged, at the forward contract rate. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction or, if hedged, at the forward contract rate. Exchange differences are taken into account in arriving at the operating profit

Provisions for bad and doubtful debts

Specific provisions are made in respect of finance and rental agreements where recovery is considered doubtful, a general provision is made for losses which, although not specifically identified, are known to be inherent in any portfolio of lending. The provisions are deducted from the net investment in finance agreements. The charge in the profit and loss account comprises write offs, recoveries and the net movement in provisions in the year. The charge has been deducted from turnover

Interest rates

The company employs various interest rate products to provide a hedge against fluctuations in interest rates. The interest charge is recognised on an accruals basis

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

2. Turnover

Amounts receivable during the year from which turnover and gross profit are derived is as follows

	2006 £000	2005 £000
Amounts due on		
Operating leases	1,886	183
Finance agreements	252,390	164,169
	<u>254,276</u>	<u>164,352</u>

New business written in the year is as follows

	2006 £000	2005 £000
Operating leases	2,590	48
Finance agreements	845,463	568,286
	<u>848,053</u>	<u>568,334</u>

3. Operating profit

Operating profit is stated after charging

	2006 £000	2005 £000
Amortisation	130	130
Depreciation of owned fixed assets & operating lease assets	1,493	1,080
Depreciation of assets held under finance lease agreements	98	158
Auditor's remuneration		
- as auditor	195	212
- for other services	18	-
	<u> </u>	<u> </u>

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

4. Particulars of employees

The average number of staff employed by the company during the financial year amounted to

	2006	2005
	No	No
Commercial division - sales	77	49
Corporate division - sales	38	34
Office, sales support and management	152	124
	<u>267</u>	<u>207</u>

The aggregate payroll costs of the above were

	2006	2005
	£000	£000
Wages and salaries	12,323	9,314
Social security costs	1,262	1,092
Other pension costs	872	579
	<u>14,457</u>	<u>10,985</u>

5. Directors' emoluments

Mr Banks is a director of the ultimate parent company, Alliance & Leicester plc and his remuneration is borne by that company. The majority of Mr Banks' activities relate to services carried out in relation to Alliance & Leicester plc and other group companies. Therefore the directors deem it appropriate not to directly allocate any of his costs to the profit and loss account of Alliance & Leicester Commercial Finance plc.

Mr Glover is director of Alliance & Leicester Commercial Bank plc and Mr Swann was a director of Alliance & Leicester Commercial Bank plc at the balance sheet date and their remuneration was borne by that company. The majority of their activities related to services carried out in relation to Alliance & Leicester Commercial Bank plc and other group companies. Therefore the directors deem it appropriate not to directly allocate any of their costs to the profit and loss account of Alliance & Leicester Commercial Finance plc.

The directors' aggregate emoluments in respect of qualifying services were

	2006	2005
	£000	£000
Emoluments receivable	492	386
Value of company pension contributions to money purchase schemes	41	29
	<u>533</u>	<u>415</u>

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

5. Directors remuneration *(continued)*

Emoluments of highest paid director:

	2006	2005
	£000	£000
Total emoluments (excluding pension contributions)	157	150
Value of company pension contributions to money purchase schemes	8	13
	<u>165</u>	<u>163</u>

The number of directors who accrued benefits under company pension schemes was as follows

	2006	2005
	No	No
Money purchase schemes	6	5
Defined benefit schemes	<u>1</u>	<u>1</u>

The director for whom contributions were made under the defined benefit scheme is also a board member of Alliance & Leicester plc and the contributions were payable by Alliance & Leicester plc

6. Income from shares in group undertakings

	2006	2005
	£000	£000
Income from group undertakings	<u>14,775</u>	<u>-</u>

7. Interest receivable and similar income

	2006	2005
	£000	£000
Amounts receivable from group undertakings	<u>5,440</u>	<u>7,499</u>

8. Interest payable and similar charges

	2006	2005
	£000	£000
Finance lease interest	3	6
Amounts payable to immediate parent undertaking	91,885	72,345
	<u>91,888</u>	<u>72,351</u>

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

9. Taxation on ordinary activities

(a) Analysis of charge in the year

	2006 £000	2005 £000
Current tax		
In respect of the year		
UK Corporation tax based on the results for the year at 30% (2005 – 30%)	2,400	1,882
Over provision in prior year	(1,048)	(4,301)
Total current tax	<u>1,352</u>	<u>(2,419)</u>
Deferred tax		
Origination and reversal of timing differences	2,395	(977)
Under provision in respect of prior periods	3,149	2,909
Total deferred tax charge (note 17)	<u>5,544</u>	<u>1,932</u>
Tax on profit on ordinary activities	<u>6,896</u>	<u>(487)</u>

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2005 - 30%)

	2006 £000	2005 £000
Profit on ordinary activities before taxation	<u>49,605</u>	<u>6,039</u>
Profit/(loss) on ordinary activities by rate of tax	14,882	1,812
Expenses not deductible for tax purposes	(10,087)	(907)
Taxable lease receipts in excess of capital allowances	(2,395)	977
Adjustments to tax charge in respect of previous periods	<u>(1,048)</u>	<u>(4,301)</u>
Total current tax (note 9(a))	<u>1,352</u>	<u>(2,419)</u>

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

10. Dividends

Equity dividends

	2006 £000	2005 £000
Paid during the year		
Dividends on ordinary shares - £0.145 per share (2005: £nil)	<u>30,000</u>	<u>—</u>

11. Intangible fixed assets

	Brand Name £000
Cost	
At 1 January 2006 and 31 December 2006	<u>2,600</u>
Amortisation	
At 1 January 2006	173
Charge for the year	<u>130</u>
At 31 December 2006	<u>303</u>
Net book value	
At 31 December 2006	<u>2,297</u>
At 31 December 2005	<u>2,427</u>

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

12. Tangible fixed assets

	Leasehold Property £000	Fixtures & Fittings £000	Motor Vehicles £000	Operating Lease Assets £000	Total £000
Cost					
At 1 January 2006	4,572	11,888	89	1,129	17,678
Additions	–	302	–	2,590	2,892
Disposals	–	(237)	(85)	(2,186)	(2,508)
Transfer from other group companies	–	–	–	6,916	6,916
At 31 December 2006	4,572	11,953	4	8,449	24,978
Depreciation					
At 1 January 2006	992	10,769	86	929	12,776
Charge for the year	59	441	1	1,090	1,591
On disposals	–	(1)	(85)	(1,475)	(1,561)
Transfer from other group companies	–	–	–	1,035	1,035
At 31 December 2006	1,051	11,209	2	1,579	13,841
Net book value					
At 31 December 2006	3,521	744	2	6,870	11,137
At 31 December 2005	3,580	1,119	3	200	4,902

Included in the carrying value of operating lease assets are residual values at the end of the current lease terms, which will be recovered through re-letting or sale in the following periods

	2006 £000	2005 £000
Within 1 year	2,206	55
Between 1-2 years	865	–
Between 2-5 years	1,614	–
Greater than 5 years	94	–
	4,779	55

Included within the net book value of £11,137,000 is £Nil (2005 - £148,000) relating to assets held under finance lease agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £98,000 (2005 - £158,000)

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

13. Investments

	Investment In Subsidiaries £000
Cost or valuation	
At 1 January 2006	9,393
Additions	79,295
At 31 December 2006	<u>88,688</u>
Net book value	
At 31 December 2006	<u>88,688</u>
At 31 December 2005	<u>9,393</u>

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

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YEAR ENDED 31 DECEMBER 2006

13. Investments *(continued)*

Details of the principal subsidiaries, which are all 100% owned and all registered in England and Wales, are as follows

Name	Trade	Year End
A & L CF March (1) Limited (formerly A & L CF March (2) Limited)	Lessors	31 March
A & L CF March (3) Limited	Lessors	31 March
A & L CF March (4) Limited	Lessors	29 March
A & L CF March (5) Limited	Lessors	31 March
A & L CF March (6) Limited	Lessors	31 March
A & L CF March (7) Limited	Lessors	31 March
A & L CF March (8) Limited	Lessors	31 March
A & L CF March (9) Limited	Lessors	31 March
A & L CF June (1) Limited	Lessors	30 June
A & L CF June (2) Limited	Lessors	30 June
A & L CF June (3) Limited	Lessors	30 June
A & L CF June (5) Limited	Lessors	30 June
A & L CF June (6) Limited	Lessors	30 June
A & L CF June (7) Limited	Lessors	30 June
A & L CF June (8) Limited	Lessors	30 June
A & L CF September (1) Limited	Lessors	30 September
A & L CF September (2) Limited	Lessors	30 September
A & L CF September (3) Limited	Lessors	30 September
A & L CF September (4) Limited	Lessors	30 September
A & L CF September (5) Limited	Lessors	30 September
A & L CF September (6) Limited	Lessors	30 September
A & L CF December (1) Limited	Lessors	31 December
A & L CF December (2) Limited	Lessors	31 December
A & L CF December (3) Limited	Lessors	31 December
A & L CF December (6) Limited	Lessors	31 December
A & L CF December (7) Limited	Lessors	31 December
A & L CF December (9) Limited	Lessors	31 December
Sovereign Freeze Limited(*)	Lessors	31 December
Sovereign Gini Limited(*)	Lessors	31 December
Sovereign Hilli Limited(*)	Lessors	31 December
Sovereign Khannur Limited(*)	Lessors	31 December
Sovereign Spirit Limited(*)	Lessors	31 December
A & L CF (Jersey) Limited (**)	Lessors	31 December

* Incorporated in Bermuda and registered in England and Wales as an overseas branch

** Incorporated in Jersey and registered in England and Wales as an overseas branch

As permitted under section 231 of the Companies Act 1985, details of the company's dormant subsidiaries are not given

Acquisition of subsidiary undertaking

The company acquired 100% of the interest in the ordinary share capital of A & L CF (Jersey) Limited on 11 October 2006

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

13 Investments *(continued)*

Sale of subsidiary undertaking

On 14 September 2006 the company sold its controlling interest in the ordinary share capital of A & L CF March (1) Limited to Kleinwort Leasing Holdings Limited

14. Stocks

	2006 £000	2005 £000
Stock	<u>2,675</u>	<u>—</u>

Stock relates to vehicles held for resale

15. Debtors

	2006 £000	2005 £000
Net investment in finance agreements (note 16)	2,142,209	1,379,586
Amounts owed by group undertakings	1,598,933	1,762,928
Other debtors	1,880	1,578
Prepayments and accrued income	11,991	15,410
Deferred taxation (note 17)	721	7,152
	<u>3,755,734</u>	<u>3,166,654</u>

The debtors above include the following amounts falling due after more than one year

	2006 £000	2005 £000
Net investment in finance agreements	<u>1,810,293</u>	<u>1,171,181</u>

16. Finance agreements

	2006 £000	2005 £000
Net investment in finance agreements	<u>2,142,209</u>	<u>1,379,586</u>

Included within net investment in finance agreements are residual values, which will be recovered through re-letting or sale, as follows

	2006 £000	2005 £000
Within 1 year	466	8
Between 1-2 years	1,090	—
Between 2-5 years	2,584	8
Greater than 5 years	3,123	—
Total exposure	<u>7,263</u>	<u>16</u>

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

17. Deferred taxation

The deferred tax included in the Balance sheet is as follows

	2006 £000	2005 £000
Included in debtors (note 15)	<u>721</u>	<u>7,152</u>

The movement in the deferred taxation account during the year was

	2006 £000	2005 £000
Balance brought forward	7,152	9,084
Provision arising on transfer agreements	(887)	-
Profit and loss account movement arising during the year (note 9)	<u>(5,544)</u>	<u>(1,932)</u>
Balance carried forward	<u>721</u>	<u>7,152</u>

The balance of the deferred taxation account consists of the tax effect of timing differences in respect of

	2006 £000	2005 £000
Excess of taxation allowances over depreciation	(216)	6,215
Other timing differences	<u>937</u>	<u>937</u>
	<u>721</u>	<u>7,152</u>

18. Creditors: Amounts falling due within one year

	2006 £000	2005 £000
Trade creditors	333	2,011
Amounts owed to group undertakings	3,666,348	3,081,902
Other taxation and social security	4,784	294
Finance lease agreements	562	487
Other creditors	6,953	5,196
Accruals and deferred income	6,292	8,935
	<u>3,685,272</u>	<u>3,098,825</u>

The amounts owed to Group undertakings for interest rate products bear commercial rates of interest. These amounts are unsecured.

Included within other creditors is £814,125 (2005 £814,125) re loan notes arising from the acquisition of Hansar Finance Limited in 2000. The loan notes are unsecured and bear interest at LIBOR. Interest is payable quarterly in arrears. The principal can be redeemed on demand.

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

19. Creditors: Amounts falling due after more than one year

	2006	2005
	£000	£000
Finance lease agreements	3,187	1,224
Other creditors	76,036	—
	<u>79,223</u>	<u>1,224</u>

£79,144,289 of other creditors relates to deferred consideration on the acquisition of A & L CF (Jersey) Limited and is subject to certain performance criteria

20. Commitments under finance lease agreements

Future commitments under finance lease agreements are as follows

	2006	2005
	£000	£000
Amounts payable within 1 year	765	561
Amounts payable between 1 and 2 years	1,023	255
Amounts payable between 3 and 5 years	2,507	803
Amounts payable after more than 5 years	—	367
	<u>4,295</u>	<u>1,986</u>
Less interest and finance charges relating to future periods	(546)	(275)
	<u>3,749</u>	<u>1,711</u>
Finance lease agreements are analysed as follows		
Current obligations	562	487
Non-current obligations	3,187	1,224
	<u>3,749</u>	<u>1,711</u>

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

21. Pensions

Alliance & Leicester Commercial Finance plc is a participating employer of the Alliance & Leicester Pension Scheme. The Scheme comprises a funded defined benefit section which became closed to new entrants on 31 March 1998, and a defined contribution section, which new employees joining the company on or after 1 April 1998 are eligible to join. It is not reasonably practicable to identify Alliance & Leicester Commercial Finance plc's share of the underlying assets and liabilities of the defined benefit section of the Scheme and accordingly the company will account for the Scheme as a defined contribution Scheme in accordance with paragraph 9 (b) of FRS 17. Company contributions are charged against profits for the period to which they relate.

The company contributions payable during the year to the defined contribution section were

2006	2005
£000	£000
916	579

There were no unpaid contributions at the year end.

Full disclosure regarding the Alliance & Leicester Pension Scheme can be found in the group report and accounts for Alliance & Leicester plc, which are produced under IFRS. An actuarial valuation of the scheme was carried out at 31 March 2006 and updated by an independent qualified actuary to assess the liabilities of the scheme as at 31 December 2006.

The principal actuarial assumptions used were

	2006 %
	Projected
Valuation method	Unit
Inflation assumption	3
Salaries rate of increase	4
Pensions rate of increase	3
Discount rate used to determine 2006 net pension cost	5
Discount rate used to determine benefit obligations at 31 December 2006	5
Expected return on scheme equities	8
Expected return on scheme bonds	5

The amounts recognised under IAS19 in the group balance sheet are determined as follows

	2006 £m	2005 £m
Present value of funded obligations	(1,327)	(1,304)
Fair value of plan assets	1,311	1,230
	(16)	(74)
Present value of unfunded obligations	(10)	(10)
Liability in the balance sheet	(26)	(84)

The group expects to contribute 19.4% of pensionable salary to its defined benefit plans in 2007. Further details can be found in the group report and accounts of Alliance & Leicester plc.

ALLIANCE & LEICESTER COMMERCIAL FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

22. Related party transactions

The company has taken advantage of the exemption offered by Financial Reporting Standard 8 "Related party disclosures" and is therefore not required to disclose transactions with other group companies

23. Share capital

Authorised share capital:

	2006 £000	2005 £000
1,192,216,000 Ordinary shares of £0 10 each	<u>119,222</u>	<u>119,222</u>

Allotted, called up and fully paid:

	2006 No	£000	2005 No	£000
Ordinary shares of £0 10 each	<u>206,565,061</u>	<u>20,657</u>	<u>206,565,061</u>	<u>20,657</u>

24. Reconciliation of movements in equity shareholders' funds

	2006 £000	2005 £000
Profit for the financial year	42,709	6,526
Equity dividends paid	<u>(30,000)</u>	<u>—</u>
Net addition to shareholders' funds	12,709	6,526
Opening equity shareholders' funds	<u>83,327</u>	<u>76,801</u>
Closing equity shareholders' funds	<u>96,036</u>	<u>83,327</u>

25. Ultimate parent company

The immediate parent company, Alliance & Leicester Commercial Finance (Holdings) plc, is a subsidiary of Alliance & Leicester plc which is the controlling party and ultimate parent undertaking incorporated in England and Wales

The largest and smallest Group in which the results of the company are consolidated is that headed by Alliance & Leicester plc The consolidated accounts of this Group are available to the public and may be obtained from Carlton Park, Narborough, Leicester, LE19 0AL