

COMPANY REGISTRATION NUMBER 1533123

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

FINANCIAL STATEMENTS

31 DECEMBER 2007



ALLIANCE & LEICESTER COMMERCIAL FINANCE plc
FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2007

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ALLIANCE & LEICESTER COMMERCIAL FINANCE plc
OFFICERS AND PROFESSIONAL ADVISERS
FOR THE YEAR ENDED 31 DECEMBER 2007

Company registration number	1533123
The board of directors	R L Banks M W Evans B P Glover C S Jones C R Morley W H Paterson M C Rogers
Company secretary	R A Hawker
Registered office	Building 3 Floor 2 Carlton Park Narborough Leicester LE19 0AL
Current auditor	Deloitte & Touche LLP Chartered Accountants & Registered Auditors Manchester
Bankers	Alliance & Leicester plc Bridle Road Bootle Merseyside L30 4GB

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2007

The directors present their report and the audited financial statements for the year ended 31 December 2007

RESULTS AND DIVIDENDS

The Company elected to adopt International Financial Reporting Standards (IFRS) for the reporting of its financial results and position as at 31 December 2007. The Company made the decision to report under IFRS to align the subsidiary's reporting with Group which publishes its Annual Report and Accounts under IFRS. The adoption of IFRS has required restatement of balances from 1 January 2006 onwards. Reconciliations of the restated amounts under United Kingdom Generally Accepted Accounting Principles (UKGAAP) and IFRS have been provided in the notes to the accounts.

The trading results for the year and the Company's financial position at the end of the year are shown in the attached financial statements. The directors have not recommended a dividend (year to 31 December 2006 £30 000,000).

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The Company is a wholly owned subsidiary of Alliance & Leicester plc and operates as part of the Group's Commercial Bank Division.

The Company's principal activities are those of lessors and financiers of assets for the corporate and public sectors.

The directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year and business is expected to continue at current levels. General information about the Group's business during the year and future plans which include the Company is disclosed in the Group's Annual Report and Accounts which does not form part of this report.

As shown in the Company's income statement on page 10, the Company's operating profit decreased during the year compared to the prior year. The reduction in operating profit is principally due to a hedge ineffectiveness loss of £3,248,000 (2006 gain of £52,174,000), offset against an increase in revenue as a result of new business written in the year.

During the year the Company recognised an impairment of £12,362,000 (2006 nil) as a result of a revision in the estimation of deferred consideration payable in relation to the acquisition of A & L CF (Jersey) Limited and A & L CF (Jersey) No 2 Limited.

The balance sheet on page 12 shows that the net assets of the Company increased during the year. Details of amounts owed to other Group undertakings at 31 December 2007 are shown in note 22 to the financial statements.

Subsequent to the year end the Company acquired A & L CF December (11) Limited (formerly Mandas No 2 Limited), a leasing company.

Alliance & Leicester plc manages its operations on a divisional basis. For this reason, the Company's directors believe that non-financial 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 and Accounts.

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2007

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES (continued)

The financial Key Performance Indicators (KPIs) for the Company are set out below

Operating profit

2007 £150,218,000

2006 £154,390,000

Customer exposure

2007 £3,091,206,000

2006 £2,139,789,000

DIRECTORS

The following persons were directors of the Company during the year

R L Banks

M W Evans

B P Glover

C R Morley

A B Swann (resigned 5 April 2007)

R L Towers (resigned 1 April 2008)

C S Jones

W H Paterson (appointed 3 August 2007)

M C Rogers was appointed as a director on 1 April 2008

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest at any time during the year in any contract of significance with the Company (2006 none)

CORPORATE GOVERNANCE

The Company operates under the Group's Corporate Governance Structure, the key elements of which are described in the Group's Statement of Corporate Governance along with details of how the Group complies with the principles of the Combined Code in the Group's Annual Report and Accounts which does not form part of this report

EMPLOYEES

Alliance & Leicester Commercial Finance plc values its employees and we recognise our responsibilities to provide a positive working environment

Details on the number of employees and related costs can be found in Note 8 to the financial accounts

Responsibility for all employee related matters rests with the Director of Group Human Resources of Alliance & Leicester plc. Group responsibilities on employee matters are disclosed in the 2007 Alliance & Leicester plc Group Annual Report & Accounts and the Corporate Social Responsibility Report, which do not form part of our report

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2007

SOCIAL RESPONSIBILITIES

The Company operates in accordance with Group policies which are described in the Corporate Responsibility Report in the Group's Annual Report and Accounts which does not form part of this report

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 Corporate and Social Responsibility Report in the Group's Annual Report and Accounts which does not form part of this report

CREDITOR PAYMENT POLICY

The Company's policy on creditor payment is consistent with that established at Group level. The Group is a signatory of the Department of Business Enterprise and Regulatory Reforms' Better Payment Practice Code, details of which can be found at www.payontime.co.uk. The Company recognises the importance of maintaining good business relationships with its suppliers. The Company policy is to

- agree the terms of payment at the start of business with a supplier,
- ensure suppliers are aware of the payment terms,
- pay in accordance with any contractual and other legal obligations

The Company utilises the purchasing function of Alliance & Leicester plc. Trade creditors for that Company for the year ended 31 December 2007 were 12 days (2006 restated – 16 days), based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors

PRINCIPAL RISKS AND UNCERTAINTIES

As a result of its normal business activities, the Company is exposed to a variety of risks, the most significant of which are operational risk, credit risk and liquidity risk. The Company manages its risk in line with the Group's Risk Management Policy and Control Framework and the Statement of Corporate Governance as described in the Group's Annual Report and Accounts which does not form part of this report

Information specific to this Company in relation to risk is disclosed in note 5 of these accounts

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 its immediate parent undertaking and the level of the third party debt is not considered to be material

Alliance & Leicester Commercial Finance plc uses interest rate swaps to hedge fixed rate loans. Hedging contracts and instruments are used by the Company as part of its overall risk management strategy. Instruments used for hedging purposes are transacted through the Group Treasury function

Residual values are reviewed for impairment and an appropriate provision is recognised in the profit and loss account

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2007

DISCLOSURE OF INDEMNITIES

The directors confirm that under Section 309 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 2007 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 and,
- c) that there is no qualifying third party indemnity provision provided by the Company for one or more directors of an associated company either on the date the Directors' Report is signed or in the last financial year

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

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

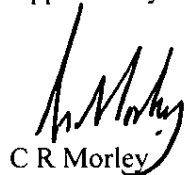
- (1) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given in accordance with the provisions of Section 234ZA of the Companies Act 1985

AUDITORS

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

Approved by the board on 16 July 2008 and signed on its behalf by



C R Morley
Director

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements are required by law to be properly prepared in accordance with IFRS as adopted by the European Union and the Companies Act 1985.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. However, directors are also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the company's ability to continue as a going concern.

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 AUDITORS' 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 2007 which comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 32. 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 law and International Financial Reporting Standards (IFRS) as adopted by the European Union 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 AUDITORS' 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 IFRS as adopted by the European Union, of the state of the company's affairs as at 31 December 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

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Chartered Accountants and Registered Auditors
Manchester

16 JULY 2008

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 £000	2006 £000
Revenue		166,688	114,419
Cost of sales		(974)	(1,308)
GROSS PROFIT		165,714	113,111
Administrative expenses		(12,248)	(10,895)
Hedge ineffectiveness	7	(3,248)	52,174
PROFIT FROM OPERATIONS	8	150,218	154,390
Profit on disposal of subsidiary undertaking		4,198	15,166
Income from shares in group undertakings	10	-	14,775
Finance income	11	9,502	5,440
Finance costs	12	(143,925)	(91,888)
PROFIT BEFORE TAX		19,993	97,883
Corporation tax expense	13	(5,096)	(21,380)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF ALLIANCE & LEICESTER COMMERCIAL FINANCE plc		14,897	76,503

There are no other recognised gains or losses in either the current or previous financial year other than the profit for the financial year

All of the activities of the Company are classed as continuing

The notes on pages 14 to 52 form part of these financial statements

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc**STATEMENT OF CHANGES IN EQUITY****FOR THE YEAR ENDED 31 DECEMBER 2007**

	Issued capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2007	20,657	80,191	100,848
Profit for the year	-	14,897	14,897
Balance at 31 December 2007	<u>20,657</u>	<u>95,088</u>	<u>115,745</u>

	Issued capital £000	Retained earnings £000	Total Equity £000
Balance at 1 January 2006	20,657	62,670	83,327
Impact of adopting IFRS (note 31)	-	(28,982)	(28,982)
Balance at 1 January 2006 restated	20,657	33,688	54,345
Profit for the year	-	76,503	76,503
Dividend paid	-	(30,000)	(30,000)
Balance at 31 December 2006	<u>20,657</u>	<u>80,191</u>	<u>100,848</u>

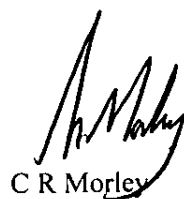
The notes on pages 14 to 52 form part of these financial statements

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc**BALANCE SHEET****AS AT 31 DECEMBER 2007**

	Notes	2007 £000	2006 £000
ASSETS			
NON CURRENT ASSETS			
Intangible assets	15	2,167	2,297
Property, plant, equipment and operating leases	16	12,320	10,857
Investments in Group undertakings	17	187,059	88,688
Investment in Joint Ventures	17	-	-
Trade and other receivables	19	2,760,555	1,812,098
		<u>2,962,101</u>	<u>1,913,940</u>
CURRENT ASSETS			
Inventories	18	2,021	2,675
Trade and other receivables	19	1,855,319	1,935,185
Cash and cash equivalents	23	-	-
Fair value macro hedge		23,347	-
Derivative financial instruments	24	28,541	33,565
		<u>1,909,228</u>	<u>1,971,425</u>
TOTAL ASSETS		<u>4,871,329</u>	<u>3,885,365</u>
EQUITY			
ISSUED CAPITAL AND RESERVES			
Issued share capital	25	20,657	20,657
Retained profit		95,088	80,191
		<u>115,745</u>	<u>100,848</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF ALLIANCE & LEICESTER COMMERCIAL FINANCE plc			
		<u>115,745</u>	<u>100,848</u>
NON CURRENT LIABILITIES			
Deferred tax liabilities	26	816	1,341
Other payables	27	140,176	79,784
CURRENT LIABILITIES			
Trade and other payables	27	4,574,337	3,684,708
Derivative financial instruments	24	40,255	18,684
TOTAL EQUITY AND LIABILITIES		<u>4,871,329</u>	<u>3,885,365</u>

The notes on pages 14 to 52 form part of these financial statements

Approved by the Board on 16 July 2008 and signed on its behalf by



C R Morley

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc
CASH FLOW STATEMENT

AS AT 31 DECEMBER 2007

	Notes	2007 £000	2006 £000
Total profit for the year		14,897	76,503
NON-CASH ADJUSTMENTS			
Depreciation		1,377	1,809
Profit on disposal of operating lease		6	45
Amortisation		130	130
Impairment of investments		12,362	-
Decrease/(increase) in inventories		654	(2,675)
Decrease in trade and other receivables		(951,854)	(755,827)
Increase in trade and other payables		82,162	82,641
Decrease in accruals		(708)	(2,643)
(Decrease)/increase in deferred taxes		(525)	20,914
Increase in fair value macro hedge		(23,347)	-
Decrease/(increase) in derivative financial instruments		26,595	(52,174)
		(853,148)	(707,780)
CASH FLOWS FROM OPERATING ACTIVITIES		(838,251)	(631,277)
Group relief received/(paid)		5,784	(1,292)
Interest received from subsidiary undertakings		9,502	5,440
Interest paid to parent undertakings		(143,925)	(91,885)
Management charges received from subsidiary undertakings		13,853	11,311
Management charges paid to parent undertakings		(2,200)	(2,200)
NET CASH FLOWS FROM OPERATING ACTIVITIES		(955,237)	(709,903)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments to acquire property, plant and equipment		(5,113)	(8,773)
Receipts from sale of property, plant and equipment		2,267	903
Payments to acquire subsidiary undertakings		(110,733)	(79,295)
Receipts on sale of subsidiary undertakings		109,438	325,341
		(4,141)	238,176
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from cash advances to parent undertaking		899,469	354,481
Receipts from cash advances to subsidiary undertakings		59,909	132,471
Dividends paid		-	(30,000)
Dividends received		-	14,775
		959,378	471,727
NET INCREASE IN CASH AND CASH EQUIVALENTS		-	-
Cash and cash equivalents as at 1 January		-	-
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	23	-	-

The notes on pages 14 to 52 form part of these financial statements

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

1. AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH IFRS

The Company's financial statements for the year were authorised for issue on 16 July 2008 and the balance sheet signed on the board's behalf by C R Morley. Alliance & Leicester Commercial Finance plc is a company incorporated and domiciled in England & Wales. The company's registered office is shown on page 2.

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have also been prepared in accordance with IFRS adopted for use by the European Union (EU), and therefore the financial statements comply with Article 4 of the EU IAS regulation. The principal accounting policies adopted by the Company are set out in note 2.

These are the Company's first financial statements to which IFRS 1 – 'First time adoption of International reporting standards' has been applied.

Results and disclosures for the comparative year are on the same basis as the 2007 results.

2. ACCOUNTING POLICIES

Accounting convention

The Company prepares its accounts under the historical cost convention, except for financial assets in fair value hedges and all derivatives contracts. The principal policies adopted are set out below.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. All such revenue is reported net of discounts and value added and other sales taxes.

Revenue from operating and finance leases is recognised in accordance with the Company's policy on Operating Lease Assets and Finance Lease Receivables (see below).

Upfront arrangement fees on financing agreements with customers are spread on an effective interest rate basis over the expected life of that agreement.

Interest expense recognition

Interest expense on financial assets and liabilities held at amortised cost is measured using the effective interest rate method, which allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

Investments in subsidiaries

Investments in subsidiaries are recorded in the Company balance sheet at cost, less any provision for impairment.

Jointly controlled entities

Jointly controlled entities are entities over which the Company has joint control established by contractual agreement with other parties. Investments in jointly controlled entities are recorded in the Company balance sheet at cost, less any provision for impairment.

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

2. ACCOUNTING POLICIES (continued)

Taxation

The tax expense represents the sum of the tax currently payable and deferred income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'Profit before tax' as reported in the Income Statement because it excludes items of income or expenditure that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Taxable profit also includes items that are taxable or deductible that are not included in 'Profit before tax'. The Company's liability for current tax and deferred tax is calculated using tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Operating lease assets

Assets acquired for the purpose of renting out under operating lease agreements are capitalised and depreciation is provided at rates calculated to write off the cost of the assets, less estimated residual value, on a straight line basis over the estimated useful life.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

Finance lease agreements

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance lease receivables

Amounts due from lessees under finance leases and hire purchase contracts are recorded as receivables at the amount of the Company's net investment in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases and hire purchase.

Finance lease payables

Assets acquired under finance leases are capitalised at the fair value at the start of the lease, with 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 outstanding liabilities.

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

2. ACCOUNTING POLICIES (continued)

Intangible fixed assets

Intangible fixed assets are included at cost and amortised on a straight line basis over their estimated useful economic life as follows

Brand names	20 years
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Property, plant and equipment and 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 7 years

No depreciation is provided on freehold land or assets in the course of construction

Inventories

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

Pensions and post-retirement medical benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Alliance & Leicester plc is the sponsoring employer for the scheme

There is no contractual agreement or stated policy for recharging the Defined Benefit cost to other Companies in the Group. Therefore, in accordance with IAS 19, the Company does not recognise an asset or liability for the scheme and accounts for its contributions as a Defined Contribution Scheme

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short term deposits. Short term deposits are defined as deposits with an initial maturity of three months or less

Financial liabilities

Derivative financial instruments are held at fair value through profit or loss, unless they are designated as cash flow hedges. Non-trading financial liabilities are held at amortised cost. Finance costs are charged to the income statement using the effective interest rate method

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

2. ACCOUNTING POLICIES (continued)

Financial assets

The Company classifies its financial assets into the following categories, as determined at initial recognition

a) Financial assets at fair value through profit or loss

This category comprises all derivatives

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market

c) Available-for-sale

Available-for-sale assets are financial assets not classified in (a) or (b) above

'Trade and other receivables' are classed as Loans and Receivables 'Net investment in finance leases and hire purchase contracts' are treated in accordance with the Company's policy on finance lease agreements

All derivatives are classified as financial assets at fair value through profit or loss Interest is calculated using the effective interest rate method is recognised in the income statement

Available-for-sale financial assets are carried at fair value

Loans and receivables are carried at amortised cost using the effective interest rate method, less any impairment Gains and losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' are recognised in the income statement Gains and losses arising from changes in the fair value of available-for-sale assets are recognised directly in equity, until the financial asset is de-recognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement Interest is calculated using the effective interest rate method and is recognised in the income statement

Impairment of financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following loss events

- a) significant financial difficulty of the issuer or obligor,
- b) a breach of contract, such as a default or delinquency in interest or principal payments,
- c) the Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Company would not otherwise consider,
- d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation,
- e) the disappearance of an active market for that financial asset because of financial difficulties, or

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

2. ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

- f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including
- i) adverse changes in the payment status of borrowers in the group, or
 - ii) national or local economic conditions that correlate with defaults on the assets in the group

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If there is no objective evidence of impairment for an individually assessed financial asset it is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

Commercial lending is reviewed for impairment on a case by case basis for individually significant loans. Loans that are not individually significant are assessed for impairment on a portfolio basis. Available-for-sale assets are assessed for impairment on a case by case basis.

Impairment is calculated based on the probability of default, exposure at default and the loss given default, using recent data. An adjustment is made for the effect of discounting cash flows.

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 effective interest rate.

If there is objective evidence of impairment for financial assets classified as available-for-sale, the cumulative fair value loss on the instrument is removed from equity and recognised in the Income Statement.

Financial assets are written off when it is reasonably certain that receivables are irrecoverable.

Derivative financial instruments

Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently remeasured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. No derivatives are designated as cash flow hedges in this Company.

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc
NOTES TO THE FINANCIAL STATEMENTS
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2. ACCOUNTING POLICIES (continued)

Fair value hedges

A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate loans. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement. The carrying value of the hedged item (or in the case of a portfolio hedge, the separate caption 'fair value macro hedge') is adjusted for the change in the fair value of the hedged risk. Such changes in the fair value of the hedged item are also taken to the income statement. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item is amortised to the income statement over the period to maturity.

If derivatives are not designated as hedges then changes in fair values are recognised immediately in the income statement.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Foreign currencies

Foreign currency monetary transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions, and are re-translated at year end exchange rates. Foreign exchange gains and losses are recognised in the income statement.

Share-based payments

The Company has applied the requirements of IFRS 2 'Share-based payments'. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005.

The Company issues share options and other equity-settled payments to certain employees. These are measured at the fair value at date of grant using binomial and Black-Scholes option pricing models. The fair value is expensed on a straight-line basis over the vesting period, based on the number of shares that will ultimately vest.

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

2. ACCOUNTING POLICIES (continued)

CHANGES TO IFRS NOT ADOPTED IN 2007 ACCOUNTS

The International Accounting Standards Board has published the following IAS, IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

Standard/Interpretation	Issued	Effective for periods commencing on or after
Amendments to IAS 1 Presentation of financial statement - A revised presentation ¹	Sep 2007	1 Jan 2009
Amendment to IAS 23 Borrowing costs ¹	Mar 2007	1 Jan 2009
IFRIC 11 IFRS 2 group and treasury share transactions	Nov 2006	1 Mar 2007
IFRIC 12 Service concession arrangements ²	Nov 2006	1 Jan 2008
IFRIC 13 Customer Loyalty Programmes ³	Oct 2007	1 Jul 2008
IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction	July 2007	1 Jan 2008
Amendment to IFRS 2 Share based payments – Vesting conditions and cancellations	Jan 2008	1 Jan 2009
IFRS 3 (revised) Business combinations ⁴	Jan 2008	1 Jul 2009
Amendments to IAS 27 Consolidated and separate financial statements ⁴	Jan 2008	1 Jul 2009

Notes

- 1 May be adopted prior to endorsement as long as there is no conflict with the current standard
- 2 May not be adopted in the EU prior to endorsement for arrangements currently accounted for under IFRIC 4
- 3 May be adopted prior to endorsement as interpretative only
- 4 May not be adopted prior to endorsement These two Standards are expected to apply prospectively so there will be no retrospective adjustment to balances currently being reported when presented as comparatives

The Company has not elected to adopt these early in these financial statements The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

3. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF SIGNIFICANT MANAGEMENT JUDGEMENT

Some asset and liability amounts reported in the accounts are based on management judgement, estimates and assumptions. There is a risk of significant changes to the carrying amounts for these assets and liabilities within the next financial year.

Impairment Provisions

Individual provisions are made in respect of finance and rental agreements where recovery is considered doubtful, a collective 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 income statement comprises write offs, recoveries and the net movement in provisions in the year.

Valuation of financial instruments

The values of financial instruments that are classified at fair value through profit or loss, available for sale, and all derivatives are stated at fair value. The vast majority of fair values are quoted market prices obtained from counterparties. The fair value of derivative financial assets and liabilities is calculated on a discounted cashflow basis by reference to yield curves.

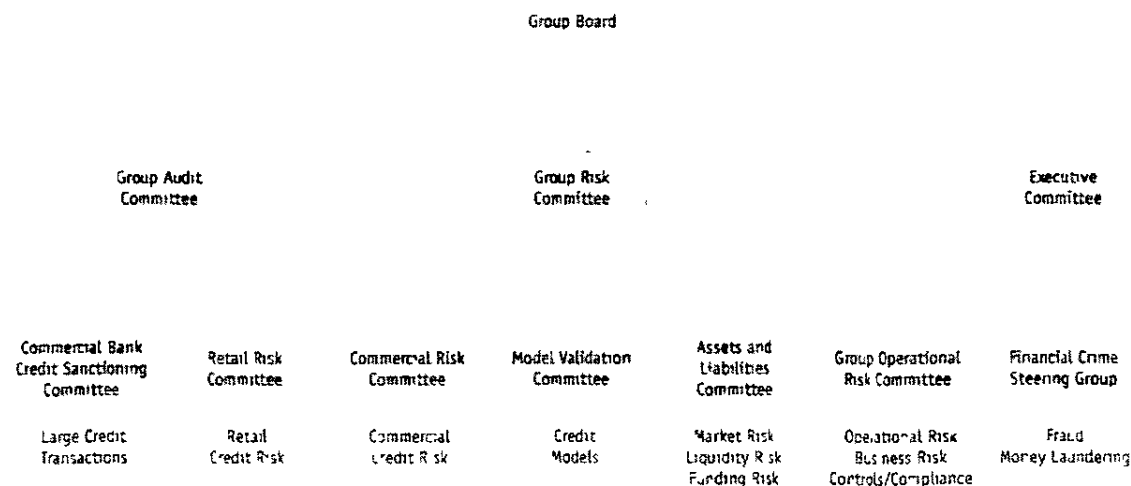
Effective interest rate calculations

IAS 39 requires certain financial assets and liabilities to be held at amortised cost, with income recognised using the EIR methodology. In order to calculate EIR, the contracted repayment profile is used. If customers repay earlier than anticipated, this will generally lead to an increase in the balance sheet carrying value and a gain in the income statement.

4. RISK MANAGEMENT POLICY AND CONTROL FRAMEWORK

Risk is managed on a Group basis. The risk management policy and control framework described below refers to the Alliance & Leicester plc Group policies that are applicable to the Company.

The Group's risk management governance structure is composed of several committees that have responsibility for key risk management areas. An illustration of how these committees report up to the Group Board is provided below.



ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

4. RISK MANAGEMENT POLICY AND CONTROL FRAMEWORK (continued)

The main roles of the committees relevant to the Company are as follows

Group Risk Committee (GRC)

GRC considers and approves on behalf of the Group Board the Group's risk management framework, its risk appetite and its key risk management policies for all risk categories. The Committee also monitors key risk management information and reviews the Group's (including Treasury) overall capital adequacy. The Chairman of GRC reports to the Group Board on the Committee's activities quarterly.

Group Audit Committee (GAC)

GAC approves the Group's financial statements, manages the relationship with the Group's external auditors, reviews reports on the operation of internal controls and monitors control issues of major significance to the Group.

Executive Committee (EC)

EC acts as the Group's senior executive committee, ensuring that it meets its strategic and operational objectives.

Model Validation Committee (MVC)

MVC provides an independent review and validation of the Group's internal ratings models to ensure that the systems are producing consistent and accurate results to support pricing, lending decisions, asset quality monitoring and capital adequacy.

Assets and Liabilities Committee (ALCO)

ALCO recommends Group policy in relation to liquidity and funding, market risk, trading policy and treasury delegations, and monitors compliance with these policies. ALCO is also responsible for considering and agreeing the economic capital framework, and for considering the Group's capital structure.

Group Operational Risk Committee (GORC)

GORC reviews and approves the Group's key operational risk management policies, monitors the Group's exposure to operational risks and reviews the arrangements for measuring and controlling operational risks.

Financial Crime Steering Group (FCSG)

FCSG exists to facilitate a coordinated and effective response to financial crime across the Group, focusing primarily on implementing the Group's strategy on anti-money laundering and anti-fraud measures.

Commercial Risk Committee (CRC)

CRC reviews credit risk, fraud, money laundering and other risk reports relating to Commercial Banking, as well as approving changes to policy prior to their submission to the GRC for formal ratification. This committee meets on a monthly basis and is chaired by the Group Chief Executive.

Commercial Bank Credit Sanctioning Committee (CBCSC)

CBCSC considers and approves applications for commercial credit in excess of predefined risk limits. Loans approved by CBCSC are reported to both the Group Board and GRC.

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

5. RISK MANAGEMENT DISCLOSURES

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is monitored by Group as described in Note 4 to these financial statements. An independent operational risk team within the Group Risk function has the overall responsibility for ensuring effective operation of the framework within which operational risk is managed, and for its consistent application across the Group. Day to day management of operational risk rests with line managers. It is managed through a combination of internal controls, processes and procedures and various risk mitigation techniques, including insurance and business continuity planning. Oversight of regulatory risk is the responsibility of the Group Risk and Compliance functions.

Credit risk

Credit risk is the risk of loss arising from a customer or counterparty failing to meet their financial obligations to the Company as and when they fall due. The Company manages its credit risk in line with Group which is firmly committed to the management of credit risk in its Commercial Lending activities and is detailed in Note 4 to these financial statements.

Lending decisions are based on independent credit risk analysis supplemented by the use of internal ratings tools which assess the obligor's likelihood of default. The output of the ratings tools is a borrower grade which maps to a long-run average one year probability of default. Borrower grades are reviewed at least annually, allowing identification of adverse individual and sector trends. The grade is integrated into an overall Credit & Risk evaluation, including wider factors such as transaction and borrower structure (ranking and structural subordination), debt serviceability and security (initial and residual value considerations). Consideration is also given to risk mitigation measures to protect the Company, such as third-party guarantees, supporting collateral and security, robust legal documentation, financial covenants and hedging. Transactions are further assessed using an internal pricing model which measures both the return on equity and the risk adjusted return on capital against a series of benchmarks to ensure risks are appropriately priced.

Portfolio asset quality monitoring is based on a number of measures, including expected loss, financial covenant monitoring, security revaluations, pricing movements and external input from rating agencies and other organisations. Should particular exposures begin to show adverse features such as payment arrears, covenant breaches or business trading performance that is materially worse than expected at the point of lending, a full risk reappraisal is undertaken. Where appropriate, case management is transferred to a specialist recovery team that works with the customer in an attempt to resolve the situation. If this does not prove possible, cases are classified as being unsatisfactory and are subject to intensive monitoring and management procedures designed to maximise debt recovery.

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

5. RISK MANAGEMENT DISCLOSURES (continued)

Credit risk (continued)

The classes of financial instruments that are most exposed to credit risk in the Company are net investment in finance leases and hire purchase contracts (note 20) and operating lease assets (note 16)

	2007 £000	2006 £000
Loans and advances to customers	2,534,187	1,639,575
Net investment in finance leases and hire purchase contracts	549,098	493,624
Operating lease assets	7,921	6,590
	<u>3,091,206</u>	<u>2,139,789</u>

All exposures are with Corporate and other customers

For the Company, 97% (2006 94%) of the balances are secured. The main types of security are charges over assets being financed such as property and vehicles £1,054,646,000 (2006 £1,036,846,000) of loans and finance leases are secured by bank guarantees

The lending book is diversified across the industry types, shown in the table below

	2007		2006	
	£000	%	£000	%
Film	1,031,216	33	901,011	42
Aviation	514,270	17	239,303	11
Shipping	393,648	13	223,253	10
Public sector	278,661	9	134,538	6
Utilities	266,229	9	110,078	5
Bus and coach	182,506	6	152,703	7
Commercial vehicles	153,168	5	129,270	6
Fleet vehicles	148,555	5	174,735	8
Other	122,953	3	74,898	5
Total	<u>3,091,206</u>	<u>100</u>	<u>2,139,789</u>	<u>100</u>

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

5 RISK MANAGEMENT DISCLOSURES (continued)

Arrears and impairment

Asset quality remains good with 0.1% of lending balances over 30 days in arrears at 31 December 2007 (2006: 0.1%)

Payment due status

2007	Corporate		Commercial Asset Finance		Total	
	£000	%	£000	%	£000	%
Not impaired						
Neither past due nor impaired	2,590,314	100	510,536	99.4	3,100,850	99.9
Past due up to 3 months but not impaired	414	-	1,405	0.3	1,819	0.1
Impaired						
Past due 3 to 5 months	58	-	438	-	496	-
Past due over 5 months	-	-	575	0.2	575	-
Individually assessed impairments	-	-	497	0.1	497	-
	<u>2,590,786</u>	<u>100</u>	<u>513,451</u>	<u>100</u>	<u>3,104,237</u>	<u>100</u>
IAS adjustment	(10,141)		(590)		(10,731)	
Provisions	-		(2,300)		(2,300)	
Total	<u>2,580,645</u>		<u>510,561</u>		<u>3,091,206</u>	
2006	Corporate		Commercial Asset Finance		Total	
	£000	%	£000	%	£000	%
Not impaired						
Neither past due nor impaired	1,652,681	100	494,498	99.2	2,147,179	99.9
Past due up to 3 months but not impaired	-	-	788	0.2	788	-
Impaired						
Past due 3 to 5 months	-	-	300	-	300	-
Past due over 5 months	-	-	730	0.1	730	-
Individually assessed impairments	-	-	2,384	0.5	2,384	0.1
	<u>1,652,681</u>	<u>100</u>	<u>498,700</u>	<u>100</u>	<u>2,151,381</u>	<u>100</u>
IAS adjustment	(7,418)	-	(589)	-	(8,007)	-
Provisions	-	-	(3,585)	-	(3,585)	-
Total	<u>1,645,263</u>		<u>494,526</u>		<u>2,139,789</u>	

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

5. RISK MANAGEMENT DISCLOSURES (continued)

Arrears and impairment (continued)

The carrying value of the repossessed stock (buses, coaches and commercial stock) was £1,539,613 (2006 £2,050,219) These assets are readily convertible to cash

The fair value of collateral on impaired assets at 31 December 2007 was £408,571 (2006 £1,634,291)

Interest accrued on impaired assets at 31 December 2007 was £80,775 (2006 £84,985)

The portfolio is subject to regular monitoring for potential impairment This monitoring includes review of each counterparty's repayment record and examination of new financial and business sector information relevant to each counterparty In the event of deterioration in a counterparty's creditworthiness being identified through this monitoring a thorough analysis is undertaken to establish the full circumstances surrounding the cause and severity of that deterioration Where this indicates a reasonable expectation that future anticipated cashflows may not be received, the asset originating these doubtful cashflows is deemed to be impaired Typical reasons for an impairment charge being made include counterparty insolvency, failure to make agreed repayments or a breach of a covenant included within facility documentation

No significant loans that would have been past due or impaired, have had their terms materially renegotiated in the current year (2006 £2,268,554)

Loans up to 3 months past due have a collective provision set aside to cover losses on loans which are in the early stages of arrears

Impairment on loans and advances

	2007	2006
	£000	£000
At 1 January		
Individual	1,228	3,012
Collective	2,357	1,308
Total impairments	3,585	4,320
Charge for the year	583	13
Provision utilised through write offs	(1,868)	(748)
Total amounts written back in year	(1,285)	(735)
At 31 December		
Individual	131	1,228
Collective	2,169	2,357
Total impairments	2,300	3,585

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

5. RISK MANAGEMENT DISCLOSURES (continued)

Market risk

Market risk is the potential adverse change in Company income or the value of Company net worth arising movements in market rates, including interest rates, exchange rates, inflation rates and equity prices. The Company manages market risk in accordance with Group policy which recognises that the effective management of market risk is essential to the maintenance of stable earnings and the preservation of shareholder value. Details of the policy are disclosed in the Risk Management Policy and Control Framework in the Group's Annual Report.

Interest rate risk

Interest rate risk is the most significant market risk to which the Company is exposed. This risk mainly arises from mismatches between the re-pricing dates of the interest bearing assets and liabilities on the Company's balance sheet, and from the investment of the Company's reserves. Interest rate risk primarily arises in the Company's leasing trade. The exposure in this area is hedged with Group Treasury using interest rate swaps and other appropriate instruments.

Value at Risk (VaR) is a measurement of the maximum amount likely to be lost from existing risk positions as a result of movement in market rates and prices. This is calculated over a particular period and at a particular confidence level.

Group Treasury uses a variance-covariance VaR model, based on historical volatility and correlation data, to a 95% confidence level over a 1 month holding period time horizon.

Although it is a useful tool in measuring Risk, VaR does contain some limitations:

- It does not accurately measure extreme events
- The use of a 95% confidence level does not by definition include losses beyond this level of confidence
- It relies on the historical volatility and correlation data being similar to the volatility and correlation positions going forward

The interest rate value at risk exposure for the Company at the 31 December 2007 and at 31 December 2006 was immaterial.

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

5. RISK MANAGEMENT DISCLOSURES (continued)

Foreign exchange risk

The Company clears its positions with Group Treasury in accordance with the policy of transferring market risk positions to Group Treasury wherever possible. As part of its normal operations Group Treasury borrows and invests funds in currencies other than Sterling. The foreign exchange risks of these activities are hedged within Group Treasury's limits.

Liquidity risk

Liquidity risk is the risk that the Company, though solvent, either does not have sufficient financial resources available to meet its obligations as they fall due, or can only secure them at excessive cost.

The Company is mainly financed by loans from its immediate parent undertaking and the level of the third party debt is not considered to be material.

As a result of the above the Company's policy is in line with Group's policy as detailed in the Risk Management and Control Framework in the Group's Annual Report.

The day to day management of liquidity is the responsibility of Group Treasury, which provides funding to and takes surplus funds from the Company as required.

The following tables analyse the Company's non-derivative liabilities into relevant maturity groupings based on the remaining period at the balance sheet date (to contractual maturity). These have been drawn on the undiscounted contractual maturities of financial liabilities including interest that will accrue to those liabilities except where the Company is entitled and intends to repay the liability before its maturity.

2007	Repayable on demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Due to suppliers	8,761	-	-	-	-	8,761
Due to group undertakings	4,534,914	-	-	-	-	4,534,914
Other	22,662	5,700	2,300	65,729	74,447	170,838
Total liabilities	4,566,337	5,700	2,300	65,729	74,447	4,714,513

2006	Repayable on demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	Over 5 years £000	Total £000
Due to suppliers	329	-	-	-	-	329
Due to group undertakings	3,666,348	-	-	-	-	3,666,348
Other	14,921	184	3,486	36,362	42,862	97,815
Total liabilities	3,681,598	184	3,486	36,362	42,862	3,764,492

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

5. RISK MANAGEMENT DISCLOSURES (continued)

Liquidity risk (continued)

The following tables give the Company's contractual maturities for their derivative financial instruments. The table has been drawn up based on undiscounted net cash inflows/(outflows) on the derivative instruments settled on a net basis, and the undiscounted gross inflows/(outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amounts disclosed have been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

2007	Less than 1 month £m	1 to 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Derivative financial instruments						
Assets	(4.9)	0.3	5.3	23.3	25.0	49.0
Liabilities	3.4	1.1	3.2	6.2	(3.5)	10.4

2006	Less than 1 month £m	1 to 3 months £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total £m
Derivative financial instruments						
Assets	(1.5)	0.1	3.0	6.7	7.8	16.1
Liabilities	3.2	0.3	4.7	15.3	(9.7)	13.8

Financial assets are used to meet liquidity needs, by utilising the cash inflows arising from these assets, sale and repurchase arrangements or outright sales. The Group has diverse funding resources and credit facilities in place to augment these cash flows when needed.

Derivatives

A derivative is an agreement which defines certain financial rights and obligations which are contractually linked to interest rates, exchange rates or other financial prices. Derivatives are an efficient and cost effective means of managing risk and are an essential tool in treasury management. Derivatives are used primarily by the Group for balance sheet management purposes.

Types of derivatives and uses

Derivatives are used by the Company to manage interest rate exposures arising from fixed rate lending. Forward rate agreements are used by the Company to manage risk arising from foreign currency exposures. All swaps and forward rate agreements are undertaken with the Treasury function of Alliance & Leicester plc.

Control of derivatives

With the exception of credit exposures, which are managed within policies approved by the Group Risk Committee (GRC), the approval of all limits over the use of derivatives is the responsibility of the Assets and Liabilities Committee (ALCO).

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

5. RISK MANAGEMENT DISCLOSURES (continued)

Fair values of financial assets and liabilities

The tables below summarise the classification of the carrying amounts of the Company financial assets and financial liabilities as at 31 December 2007 and 31 December 2006

2007	Derivatives	Loans and receivables	Total
	£000	£000	£000
Financial assets			
Loans and advances to customers	-	2,534,187	2,534,187
Derivative financial instruments	28,541	-	28,541
Total financial assets	<u>28,541</u>	<u>2,534,187</u>	<u>2,562,728</u>
Non financial assets			2,308,601
Total assets			<u>4,871,329</u>
Financial liabilities			
Derivative financial instruments	40,255	-	40,255
Total financial liabilities	<u>40,255</u>	<u>-</u>	<u>40,255</u>
Non financial liabilities			4,715,329
Total liabilities			<u>4,755,584</u>

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

5. RISK MANAGEMENT DISCLOSURES (continued)

Fair values of financial assets and liabilities (continued)

2006	Derivatives	Loans and receivables	Total
	£000	£000	£000
Financial assets			
Loans and advances to customers	-	1,639,575	1,639,575
Derivative financial instruments	33,565	-	33,565
Total financial assets	33,565	1,639,575	1,673,140
Non financial assets			2,212,225
Total assets			3,885,365
Financial liabilities			
Derivative financial instruments	18,684	-	18,684
Total financial liabilities	18,684	-	18,684
Non financial liabilities			3,765,883
Total liabilities			3,784,517

The following table summarises the carrying amount and fair values as at 31 December 2007 of those financial assets and liabilities not presented on the Company balance sheets at their fair value (loans and receivables and liabilities at amortised cost)

	2007 Carrying value £000	2007 Fair value £000	2006 Carrying value £000	2006 Fair value £000
Financial assets				
Loans and advances to customers	2,534,187	2,546,387	1,639,575	1,627,875
Net investment in finance leases and hire purchase contracts	549,098	550,298	493,624	489,124
	3,083,285	3,096,685	2,133,199	2,116,999
Financial liabilities				
Due to suppliers	8,761	8,761	329	329
Other creditors	170,838	170,838	97,815	97,815
	179,599	179,599	98,144	98,144

Net investment in finance leases and hire purchase contracts

The fair value of floating rate assets is approximately equal to their carrying amount. The estimated fair value of fixed rate assets is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

6. OPERATING SEGMENTS

The Company adopted IFRS 8 'Operating Segments' in advance of its effective date, with effect from 1 January 2007. IFRS 8 requires operating segments to be identified on the basis of internal reports.

The Company is managed as follows, in segments determined according to similar economic characteristics and customer base.

Corporate Lending

This comprises larger corporate customers, across key industries of shipping, aviation, infrastructure and film.

Commercial Asset Finance

This comprises small to medium commercial customers in the bus and coach, commercial vehicles, wholesale finance and public sector industries.

No geographical analysis is presented because substantially all of the Company's activities are in the UK.

2007	Corporate	Commercial Asset Finance	Total
	£000	£000	£000
Revenue	130,490	36,198	166,688
Cost of sales	-	(974)	(974)
Finance costs	(110,744)	(33,181)	(143,925)
Segment result	19,746	2,043	21,789
Administrative expenses			(12,248)
Hedge ineffectiveness			(3,248)
Profit on disposal of subsidiary undertaking			4,198
Finance income			9,502
Profit before tax			19,993
Corporation tax expense			(5,096)
Profit for the year attributable to the equity holders of Alliance & Leicester Commercial Finance plc			14,897

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

6. OPERATING SEGMENTS (continued)

2006	Corporate	Commercial Asset Finance	Total
	£000	£000	£000
Revenue	77,351	37,068	114,419
Cost of sales	-	(1,308)	(1,308)
Finance costs	(66,817)	(25,071)	(91,888)
Segment result	10,534	10,689	21,223
Administrative expenses			(10,895)
Hedge ineffectiveness			52,174
Profit on disposal of subsidiary undertaking			15,166
Income from shares in Group undertakings			14,775
Finance income			5,440
Profit before tax			97,883
Corporation tax expense			(21,380)
Profit for the year attributable to the equity holders of Alliance & Leicester Commercial Finance plc			76,503

7. HEDGE INEFFECTIVENESS

The hedge ineffectiveness accounting loss of £3,248,000 (2006 £52,174,000 gain) represents the net fair value loss on derivatives instruments that are matching risk exposure on an economic basis. Hedges were designated from 1 January 2007. Some accounting volatility arises on hedged items due to accounting ineffectiveness on designated hedges, or because hedge accounting has not been adopted or is not achievable on certain items. The loss is primarily due to timing differences in income recognition between the derivative instruments and the economically hedged assets and liabilities.

	2007 £000	2006 £000
Gains/(losses) arising from the change in fair value of fair value hedges		
On the hedging instruments	(24,564)	-
On the hedged items attributable to the hedged risk	28,531	-
Fair value (losses)/gains arising from items not designated as accounting hedges	(7,215)	52,174
Total	(3,248)	52,174

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc
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FOR THE YEAR ENDED 31 DECEMBER 2007

8. PROFIT FROM OPERATIONS

Profit from operations is stated after charging/(crediting) the following

	2007	2006
	£000	£000
Amortisation	130	130
Impairment (note 17)	12,362	-
Depreciation of own fixed assets and operating lease assets	1,377	1,711
Depreciation of assets held under finance agreements	-	98
Auditor's remuneration (see below)	310	213

A more detailed analysis of auditors' remuneration paid to Deloitte & Touche LLP is provided below

	2007	2006
	£000	£000
<i>Audit services</i>		
Statutory audit	300	195
	300	195
 Further assurance services	10	18
	10	18
 Total	310	213

Particulars of employees

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

	2007	2006
	No	No
Commercial division - sales	77	77
Corporate division - sales	23	38
Office, sales support and management	141	152
Total	241	267

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc
NOTES TO THE FINANCIAL STATEMENTS
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8. PROFIT FROM OPERATIONS (continued)

The aggregate payroll costs of the above were

	2007	2006
	£000	£000
Wages and salaries	14,049	12,323
Social security costs	1,583	1,262
Other pension costs	1,110	872
Total	<u>16,742</u>	<u>14,457</u>

9. 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.

The directors' aggregate emoluments in respect of qualifying services were

	2007	2006
	£000	£000
Emoluments receivable	1,577	1,008
Value of company pension contributions to money purchase schemes	71	78
Total	<u>1,648</u>	<u>1,086</u>

In 2007 £938,879 of the total emoluments (2006 £553,786) were borne by Group undertakings.

Emoluments of highest paid director:

	2007	2006
	£000	£000
Emoluments receivable	573	262
Value of company pension contributions to money purchase schemes	6	17
Total	<u>579</u>	<u>279</u>

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

	2007	2006
	No	No
Money purchase schemes	6	6
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.

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc
NOTES TO THE FINANCIAL STATEMENTS
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10. INCOME FROM SHARES IN GROUP UNDERTAKINGS

	2007	2006
	£000	£000
Income from group undertakings	<u>-</u>	<u>14,775</u>

11. FINANCE INCOME

	2007	2006
	£000	£000
Amounts receivable from immediate parent undertakings	<u>9,502</u>	<u>5,440</u>

12. FINANCE COSTS

	2007	2006
	£000	£000
Interest expense finance leases	-	3
Amounts payable to immediate parent undertakings	<u>143,925</u>	<u>91,885</u>
	<u>143,925</u>	<u>91,888</u>

13. CORPORATION TAX EXPENSE

Components of Corporation tax

	2007	2006
	£000	£000
Current tax expense		
Current tax charge	4,828	2,400
Adjustments to current tax of prior period	863	(1,048)
Current tax expense	<u>5,691</u>	<u>1,352</u>
Deferred tax (income)/expense		
Relating to origination and reversal of temporary differences	40	16,879
Adjustments to deferred tax of prior period	(635)	3,149
Deferred tax (income)/expense	<u>(595)</u>	<u>20,028</u>
Tax expense reported in the income statement	<u>5,096</u>	<u>21,380</u>

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

13. CORPORATION TAX (continued)

Reconciliation of corporation tax charge to accounting profit

During 2007 the Government enacted a change in corporation tax reducing the rate from 30% to 28% with effect from April 2008. The impact of this change on the corporation tax charge is disclosed in the table below.

The effective rate of tax for the year of 25.5% is lower (2006: 21.8% lower) than the standard rate of corporation tax in the UK of 30%, where the Company generates substantially all its profits. The differences are explained below.

	2007 £000	2006 £000
Profit before tax	19,993	97,883
Tax calculated at a rate of 30% (2006: 30%)	5,998	29,365
Non-taxable income and disallowable expenses	(1,072)	(10,086)
Impact on deferred tax of change in the rate of corporation tax	(58)	-
Adjustment to tax expense in relation to prior year	228	2,101
Corporation tax expense	<u>5,096</u>	<u>21,380</u>

14. DIVIDENDS

In 2007 the Company paid no dividends (2006: £30,000,000 which equates to 14.5 pence per equity share).

15. INTANGIBLE FIXED ASSETS

	2007 £000	2006 £000
Cost		
At 1 January and 31 December	<u>2,600</u>	<u>2,600</u>
Amortisation		
At 1 January	303	173
Charge for the year	<u>130</u>	<u>130</u>
At 31 December	<u>433</u>	<u>303</u>
Net book value		
At 1 January	<u>2,297</u>	<u>2,427</u>
At 31 December	<u>2,167</u>	<u>2,297</u>

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

16. PROPERTY, PLANT, EQUIPMENT AND OPERATING LEASES

2007	Leasehold Property £000	Fixtures & Fittings £000	Motor Vehicles £000	Operating Lease Assets £000	Total £000
Cost					
At 1 January 2007	4,572	11,953	4	8,449	24,978
Additions	-	536	-	4,577	5,113
Disposals	-	(11)	-	(2,858)	(2,869)
At 31 December 2007	<u>4,572</u>	<u>12,478</u>	<u>4</u>	<u>10,168</u>	<u>27,222</u>
Depreciation					
At 1 January 2007	1,051	11,209	2	1,859	14,121
Disposals	-	(10)	-	(586)	(596)
Charge for year	74	329	-	974	1,377
At 31 December 2007	<u>1,125</u>	<u>11,528</u>	<u>2</u>	<u>2,247</u>	<u>14,902</u>
Net book value					
At 1 January 2007	<u>3,521</u>	<u>744</u>	<u>2</u>	<u>6,590</u>	<u>10,857</u>
At 31 December 2007	<u>3,447</u>	<u>950</u>	<u>2</u>	<u>7,921</u>	<u>12,320</u>

2006	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	<u>4,572</u>	<u>11,953</u>	<u>4</u>	<u>8,449</u>	<u>24,978</u>
Depreciation					
At 1 January 2006	992	10,769	86	990	12,837
Disposals	-	(1)	(85)	(1,474)	(1,560)
Charge for year	59	441	1	1,308	1,809
Transfer from other Group companies	-	-	-	1,035	1,035
At 31 December 2006	<u>1,051</u>	<u>11,209</u>	<u>2</u>	<u>1,859</u>	<u>14,121</u>
Net book value					
At 1 January 2006	<u>3,580</u>	<u>1,119</u>	<u>3</u>	<u>139</u>	<u>4,841</u>
At 31 December 2006	<u>3,521</u>	<u>744</u>	<u>2</u>	<u>6,590</u>	<u>10,857</u>

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

16. PROPERTY, PLANT EQUIPMENT AND OPERATING LEASES (continued)

At the balance sheet date, the Company had contracted with lessees for the following future minimum lease payments

	2007 £000	2006 £000
Within 1 year	1,383	925
Between 1-5 years	2,833	2,089
In more than 5 years	224	169
Total	<u>4,440</u>	<u>3,183</u>

Included within the net book value of £12,320,000 is £Nil (2006 - £nil) 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 £Nil (2006 - £98,135)

17. INVESTMENTS

	Investment in subsidiaries £000	Investment in joint ventures £000	Total £000
Cost or valuation			
At 1 January 2007	88,688	-	88,688
Additions	110,733	-	110,733
At 31 December 2007	<u>199,421</u>	<u>-</u>	<u>199,421</u>
Impairment			
At 1 January 2007	-	-	-
Impairment for the year	12,362	-	12,362
At 31 December 2007	<u>12,362</u>	<u>-</u>	<u>12,362</u>
Net book value			
At 1 January 2007	88,688	-	88,688
At 31 December 2007	<u>187,059</u>	<u>-</u>	<u>187,059</u>

The impairment recognised in the year of £12,362,000 (2006 nil) relates to a revision in the estimation of deferred consideration payable in relation to the acquisition of A & L CF (Jersey) Limited and A & L CF (Jersey) No 2 Limited

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

17. 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	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 December (1) Limited	Lessors	31 December
A & L CF December (2) Limited	Lessors	31 December
A & L CF December (10) Limited	Lessors	31 December
Sovereign Freeze Limited(*)	Lessors	31 December
Sovereign Gimi 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
A & L CF (Jersey) No 2 Limited (**)	Lessors	31 December
ALCF Investments Limited	Investment	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

Details of the principal joint venture interests, which are all 50% owned and registered in England and Wales, are as follows

Name	Trade	Year End
Charta Leasing No 1 Limited (formerly A & L CF September (6) Limited)	Lessors	30 September
Charta Leasing No 2 Limited (formerly A & L CF December (3) Limited)	Lessors	31 December

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

17. INVESTMENTS (continued)

Acquisition of subsidiary undertakings

The company acquired 100% of the interest in the ordinary share capital of A & L CF (Jersey) No 2 Limited (formerly Stena Dyne Limited) on 16 March 2007 for consideration of £82,208,000

The company acquired 100% of the interest in the ordinary share capital of ALCF Investments Limited on 10 May 2007 for consideration of £1

The company acquired 100% of the interest in the ordinary share capital of A & L CF December (10) Limited (formerly Mandas Limited) on 10 May 2007 for consideration of £28,525,000

Sale of subsidiary undertakings

On 4 April 2007 the company sold its controlling interest in the ordinary share capital of A & L CF December (9) Limited to Kleinwort Leasing Holdings Limited for consideration of £109,438,000

On 25 September 2007 the Company sold 50% of its controlling interest in the ordinary share capital of A & L CF September (6) Limited to Bank of Scotland Structured Asset Finance Limited for £1. Upon this sale the Company reclassified its investment as a joint venture. On this date A & L CF September (6) Limited changed its name to Charta Leasing No 1 Limited

On 12 October 2007 the Company sold 50% of its controlling interest in the ordinary share capital of A & L CF December (3) Limited to Bank of Scotland Structured Asset Finance Limited for £1. Upon this sale the Company reclassified its investment as a joint venture. On this date A & L CF December (3) Limited changed its name to Charta Leasing No 2 Limited

18. INVENTORIES

	2007	2006
	£000	£000
Inventories	<u>2,021</u>	<u>2,675</u>

Inventories relates to vehicles held for resale

19. TRADE AND OTHER RECEIVABLES

	2007	2006
	£000	£000
Non current		
Finance agreements	<u>2,760,555</u>	<u>1,812,098</u>
Current		
Finance agreements	322,730	321,101
Amounts owed from related parties (note 22)	1,515,668	1,598,933
Other receivables	<u>16,921</u>	<u>15,151</u>
	<u>1,855,319</u>	<u>1,935,185</u>

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

20. FINANCE LEASES

Finance leases as lessor

The Company enters into finance lease arrangements with customers in the commercial and public sectors

	<i>Gross investment in the lease</i>		<i>Present value of minimum lease payments</i>	
	2007 £000	2006 £000	2007 £000	2006 £000
Less than one year	214,320	241,526	192,553	219,909
Later than one year but less than five years	320,439	271,589	287,177	246,431
Later than five years	78,181	34,270	69,368	27,284
	<u>612,940</u>	<u>547,385</u>	<u>549,098</u>	<u>493,624</u>
Less				
Unearned finance income	(58,802)	(49,062)		
Unguaranteed residual value accruing to the benefit of the lessor	(2,950)	(1,282)		
Provision for uncollectible minimum lease payments	<u>(2,090)</u>	<u>(3,417)</u>		
Present value of minimum lease payments receivable	<u>549,098</u>	<u>493,624</u>		
Non-current			356,545	273,715
Current			<u>192,553</u>	<u>219,909</u>
			<u>549,098</u>	<u>493,624</u>

Finance leases as lessee

	<i>Gross investment in the Lease</i>		<i>Present value of minimum lease payments</i>	
	2007 £000	2006 £000	2007 £000	2006 £000
Less than one year	2,451	765	1,811	562
Later than one year but less than five years	10,753	3,530	9,472	3,187
Later than five years	-	-	-	-
	<u>13,204</u>	<u>4,295</u>	<u>11,283</u>	<u>3,749</u>
Less				
Future finance charges	<u>(1,921)</u>	<u>(546)</u>		
Present value of minimum lease payments receivable	<u>11,283</u>	<u>3,749</u>		
Non-current			9,472	3,187
Current			<u>1,811</u>	<u>562</u>
			<u>11,283</u>	<u>3,749</u>

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

21. CAPITAL

Capital is managed on a Group basis. The objectives, policies and processes for managing capital are disclosed in the Group's Annual Report.

22. RELATED PARTY TRANSACTIONS

Ultimate controlling party

As permitted by IAS 27, Group financial statements have not been prepared as the Company's 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.

Trading activities

Payable to related parties

	2007 £000	2006 £000
Current tax Group relief	5,462	(322)
VAT Group relief	3,934	-
Amounts owed to Group undertakings	4,525,518	3,666,670
	<u>4,534,914</u>	<u>3,666,348</u>

The Company entered into transactions with other Group undertakings as shown in the table below.

	2007 £000	2006 £000
Amount owed to other Group undertakings		
As at 1 January	3,666,348	3,065,853
Net movements	868,566	600,495
As at 31 December	<u>4,534,914</u>	<u>3,666,348</u>
Interest paid to Group undertakings	<u>143,925</u>	<u>91,885</u>

Included in the amounts owed to other Group undertakings is £8,334,000 (2006 £8,334,000) owed to a subsidiary undertaking. The remainder of this balance is owed to parent undertakings.

Key management compensation

Key management compensation paid by this Company is shown within the director's emoluments disclosure in note 9.

Administration expenses

During the current year the Company paid administrative cost recharges to other Group undertakings of £2,200,000 (2006 £2,200,000).

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

22. RELATED PARTY TRANSACTIONS (continued)

Receivable from related parties

	2007 £000	2006 £000
Amounts owed from subsidiary undertakings	<u>1,515,668</u>	<u>1,598,933</u>
	<u>1,515,668</u>	<u>1,598,933</u>

The Company entered into transactions with subsidiary undertakings as shown in the table below

	2007 £000	2006 £000
Amount owed from subsidiary undertakings		
As at 1 January	1,610,924	1,762,928
Net movements	<u>(95,256)</u>	<u>(163,995)</u>
As at 31 December	<u>1,515,668</u>	<u>1,598,933</u>
Interest received from subsidiary undertakings	<u>9,502</u>	<u>5,440</u>

Administration expenses

During the current year the Company received administrative cost recharges from subsidiary undertakings of £13,853,408 (2006 £11,311,275)

23. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise the following

	2007 £000	2006 £000
Cash on hand	<u>-</u>	<u>-</u>

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

24. DERIVATIVE FINANCIAL INSTRUMENTS

2007	Contract or underlying principal amount £000	Assets £000	Liabilities £000
Derivatives not hedge accounted:			
Currency forwards	10,691	-	(1,006)
Derivatives held for hedging			
Interest rate swaps	4,922,457	10,154	(37,316)
Total derivative assets/(liabilities)	4,933,148	10,154	(38,322)
Accrued interest	-	18,387	(1,933)
TOTAL	4,933,148	28,541	(40,255)

2006	Contract or underlying principal amount £000	Assets £000	Liabilities £000
Derivatives not hedge accounted:			
Currency forwards	10,691	-	(998)
Interest rate swaps	2,126,825	17,767	(17,205)
Total derivative assets/(liabilities)	2,137,516	17,767	(18,203)
Accrued interest	-	15,798	(481)
TOTAL	2,137,516	33,565	(18,684)

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

25. SHARE CAPITAL

Authorised share capital

	2007		2006	
	Number of £0.10 Ordinary Shares	£000	Number of £0.10 Ordinary Shares	£000
Ordinary share capital	<u>1,192,216,000</u>	<u>119,222</u>	<u>1,192,216,000</u>	<u>119,222</u>

Issued share capital

	2007		2006	
	Number of £0.10 Ordinary Shares	£000	Number of £0.10 Ordinary Shares	£000
Issued and fully paid Ordinary share capital	<u>206,565,061</u>	<u>20,657</u>	<u>206,565,061</u>	<u>20,657</u>

All issued share capital is classified as equity

26. DEFERRED TAX LIABILITIES

	Balance sheet		Income statement	
	2007	2006	2007	2006
	£000	£000	£000	£000
Deferred tax liabilities				
Relating to depreciation	253	132	49	6,417
Relating to provisions	<u>563</u>	<u>1,209</u>	<u>(644)</u>	<u>13,611</u>
	<u>816</u>	<u>1,341</u>	<u>(595)</u>	<u>20,028</u>

The movement in the deferred tax account is as follows

	2007	2006
	£000	£000
At 1 January	1,341	(19,573)
Income statement charge	40	16,879
Adjustments to deferred tax in relation to prior year	(635)	3,149
Provision arising on transfer of agreements	<u>70</u>	<u>886</u>
Total	<u>816</u>	<u>1,341</u>

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

NOTES TO THE FINANCIAL STATEMENTS

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27. TRADE AND OTHER PAYABLES

	2007 £000	2006 £000
Non current		
Finance lease agreements	9,472	3,187
Other creditors	130,704	76,597
	<u>140,176</u>	<u>79,784</u>
Current		
Payable to trade suppliers	8,761	329
Finance lease agreements	1,811	562
Accrued liabilities	5,964	6,595
Payable to related parties (note 22)	4,534,914	3,666,348
Other creditors	22,887	10,874
	<u>4,574,337</u>	<u>3,684,708</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 (2006: £814,125) in respect of 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.

Included within other creditors is deferred consideration of £70,020,188 (2006: £79,144,289) on the acquisition of A & L CF (Jersey) Limited and deferred consideration of £74,963,843 (2006: £Nil) on the acquisition of A & L CF (Jersey) No 2 Limited. The deferred consideration amounts are subject to certain performance criteria.

ALLIANCE & LEICESTER COMMERCIAL FINANCE plc

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28. 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. There is no contractual agreement or stated policy for recharging the Defined Benefit cost to other Companies in the Group. Therefore, in accordance with IAS 19, the Company does not recognise an assets or liability for the scheme and accounts for its contributions as a Defined Contribution Scheme.

The Company contributions payable during the year to the defined contribution section were £1,110,000 (2006 £872,000). There were no unpaid contributions at 31 December 2007.

Full disclosure regarding the Alliance & Leicester Pension Scheme can be found in the Group report and accounts for Alliance & Leicester plc which do not form part of this Report. 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 2007.

The principal actuarial assumptions used were

Valuation method	Projected unit % at 2007	Projected unit % at 2006
Inflation assumption	3.30	3.00
Salaries rate of increase (p.a.)	3.80	3.50
Pensions rate of increase (p.a.)	3.30	3.00
Discount rate used to determine net pension cost	5.20	4.90
Discount rate used to determine benefit obligations at 31 December pensioners	5.90	5.20 ¹
Discount rate used to determine benefit obligations at 31 December non-pensioners	5.60	5.20 ¹
Expected Return on Scheme equities	7.75	7.50
Expected Return on Scheme bonds	4.95	4.50
Expected Return on Scheme properties	6.20	n/a

¹In 2006 a single combined discount rate of 5.20% was used for pensioners and non-pensioners.

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28. PENSIONS (continued)

The amounts recognised in the Group balance sheet are determined as follows

	2007 £000	2006 £000
Present value of funded obligations	(1,323,800)	(1,327,300)
Fair value of scheme assets	1,376,600	1,310,500
	<u>52,800</u>	<u>(16,800)</u>
Present value of unfunded obligations	(10,800)	(9,500)
Asset/ (Liability) in the balance sheet	<u>42,000</u>	<u>(26,300)</u>

The Group expects to contribute 19.4% of pensionable salary to its defined benefit scheme in 2008. Further details can be found in the Group report and accounts for Alliance & Leicester plc.

29. SHARE-BASED PAYMENTS

During the period ended 31 December 2007, the Company has seven share-based payment arrangements. These are described below:

(i) ShareSave Plan

The plan is open to all employees. Participants may elect to save up to £250 per month under a three or five year savings contract. An option is granted by the Company to purchase shares at a price based on 80% of the market value of the shares at the time of grant. At the end of the savings contract, a tax free bonus is applied to the savings and the option to purchase shares becomes exercisable, for a period of six months.

(ii) Share Incentive Plan ('SIP') – free shares

Eligible employees were, until 2005, awarded free shares each year based on a percentage of their salary. Shares can be released from Trust after five years free of income tax and national insurance contributions.

(iii) Share Incentive Plan ('SIP') – Partnership shares

SIP partnership shares are available to all employees. Participants may invest up to £125 per month from pre-tax salary to purchase shares at the prevailing market price. Shares can be released from Trust after five years free of income and national insurance contributions.

(iv) Executive Share Options

Executive options are normally granted to executive, associate and divisional directors twice a year, after the final and interim results announcements. The number of shares over which options are granted is based on a percentage of the participant's salary in the range of 100% to 150%. The exercise of options is subject to a three year performance condition based on Earnings Per Share (EPS) growth detailed in the Directors' Remuneration Report in the Group's Annual Report and Accounts which does not form part of this report. Options lapse ten years from the grant date.

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FOR THE YEAR ENDED 31 DECEMBER 2007

29. SHARE-BASED PAYMENTS (continued)

(v) *Deferred Bonus Plan*

Group Senior Managers, excluding executive, associate and divisional directors, can defer either 12.5% or 25% of their annual cash bonus into shares, which are then matched by the Company. The right to purchase those shares cannot normally be exercised for three years and lapses if not exercised within seven years. Executive directors participated in the plan until 2005, and performance conditions were attached to the receipt of matching shares.

(vi) *Performance Share Plan*

Annual awards are made under the Performance Share Plan to executive, associate and divisional directors. The award is normally over shares and accrued dividends to the value of 100% to 150% of annual salary, with a maximum award of 200%. Vesting of the award is subject to a three year performance period and dependent upon Total Shareholder Return, EPS and, in addition from 2007, Return on Equity. Awards lapse five years from the award date.

(vii) *Restricted Share Plan*

Group Senior Managers, excluding executive, associate and divisional directors, participate in the Restricted Share Plan. Annual awards of shares are made based on a percentage of individuals' salary with awards normally in the range 0% to 15%. Awards vest after three years.

Details of the number and weighted average exercise prices of share options at the start of the period, granted during the period, lapsed during the period, exercised during the period and outstanding at the end of the period are disclosed in the Group's Annual Report and Accounts which does not form part of this report. Information specific to Alliance & Leicester Commercial Finance plc has not been disclosed as it is impractical to split this amount from the Alliance & Leicester plc Group disclosures.

The estimated fair values are calculated by applying the following models:

- Share Incentive Plan – Black-Scholes option pricing model,
- Executive Share Options and ShareSave Plan – restricted exercise binomial model for American style options,
- Deferred Bonus Plan and Executive Performance Share Plan – the value of the share price option plus the present value of any deferred dividends. The assumptions used in the model are as follows:

Input	Assumption
Share price	Price at date of grant
Exercise price	Per scheme rules
Expected volatility	19.2% - 30.9% (2006: 15% - 21.5%) Expected volatility is estimated by calculating the annualised, exponential weighted monthly volatility of Alliance & Leicester plc share price over the preceding two years
Option life	Per scheme rules
Expected dividends	Based on historical dividend yield
Risk-free interest	5.2% - 6.3% (2006: 4.6% - 5.3%)

Levels of early exercises and lapses are estimated using historical averages.

The charge to the Company income statement in the year was £0.6m (2006: £0.6m).

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30. RECONCILIATION OF 31 DECEMBER 2006 UKGAAP SHAREHOLDERS' EQUITY TO 31 DECEMBER 2006 IFRS SHAREHOLDERS EQUITY

	£000
Reserves at 31 December 2006 (UKGAAP)	96,036
Reduction on Retained earnings at 1 January 2006 (note 31)	(28,982)
Increase in Profit after Tax for 2006 (note 32)	33,794
Reserves at 31 December 2006 (IFRS)	<u>100,848</u>

31. RECONCILIATION OF BALANCE SHEET AT 1 JANUARY 2006 (Date of Transition to IFRS)

	Note	UKGAAP 31 December 2005 £000	Effect of Transition to IFRS £000	IFRS 1 January 2006 £000
Assets				
Intangible assets		2,427	-	2,427
Plant, property & equipment & operating leases	1	4,902	(61)	4,841
Investments in Group Undertakings		9,393	-	9,393
Trade & other receivables	2,4	3,166,654	8,371	3,175,025
Total Assets		<u>3,183,376</u>	<u>8,310</u>	<u>3,191,686</u>
Equity & Liabilities				
Issued share capital		20,657	-	20,657
Retained profits	3	62,670	(28,982)	33,688
Trade and other payables		3,100,049	-	3,100,049
Derivative financial instruments	5	-	37,292	37,292
Total Equity & Liabilities		<u>3,183,376</u>	<u>8,310</u>	<u>3,191,686</u>

Notes

- 1 IAS 16 and IAS 17 require the use of straight line depreciation compared to an annuity basis in UKGAAP. Depreciation is recognised earlier under IFRS, reducing the carrying value of 'Operating Lease Assets'.
- 2 IAS 17 requires the use of the pre-tax actuarial method of income recognition compared to the post-tax basis in UKGAAP. IAS 17 results in interest being recognised later than under UKGAAP. Consequently there is a reduction in the 'Net Investment in Finance Leases' on first time adoption of IFRS.
- 3 On first time adoption of IFRS, all movements in equity from UKGAAP to IFRS are posted directly to profit and loss account reserves. The reduction of £28,982,000 reflects the sum of the impacts to assets and liabilities at 1 January 2006.

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31. RECONCILIATION OF BALANCE SHEET AT 1 JANUARY 2006 (Date of Transition to IFRS) (continued)

4 The reduction in 'Deferred Tax Liabilities' reflects the tax impacts arising from changes to assets and liabilities on adopting IFRS for the first time

5 IAS 39 requires that all derivatives are measured at fair value on the balance sheet

32. RECONCILIATION OF PROFIT FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	UKGAAP 31 December 2006	Effect of Transition to IFRS	IFRS 31 December 2006
Revenue	1	118,097	(3,678)	114,419
Cost of sales	2	(1,090)	(218)	(1,308)
Administrative expenses		(10,895)	-	(10,895)
Hedge ineffectiveness	3	-	52,174	52,174
Operating Income		106,112	48,278	154,390
Profit on disposal of subsidiary undertaking		15,166	-	15,166
Income from shares in Group undertakings		14,775	-	14,775
Finance income		5,440	-	5,440
Finance costs		(91,888)	-	(91,888)
Profit Before Tax		49,605	48,278	97,883
Corporation tax expense		(6,896)	(14,484)	(21,380)
Profit for the year		42,709	33,794	76,503

Notes

1 The reduction in Revenue is due to the pre-tax actuarial method of income recognition under IAS 17, compared to the post-tax basis in UKGAAP. This changes the income profile on finance lease assets

2 The reduction in cost of sales is due to IAS 16 and IAS 17 which requires the use of straight line depreciation compared to an annuity basis under UKGAAP

3 IAS 39 requires that all derivatives are measured at fair value on the balance sheet