

Company Registration No: 02354214

LOMBARD VENTURE FINANCE LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 2008

**Group Secretariat
The Royal Bank of Scotland Group plc
Gogarburn
P.O. Box 1000
Edinburgh
EH12 1HQ**



LOMBARD VENTURE FINANCE LIMITED

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LOMBARD VENTURE FINANCE LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS:

**A D Baldock
N T J Clibbens
N Kapur
R M Priestman**

SECRETARY:

L H Cameron

REGISTERED OFFICE:

**3 Princess Way
Redhill
Surrey
RH1 1NP**

AUDITORS:

**Deloitte LLP
London**

Registered in England and Wales.

LOMBARD VENTURE FINANCE LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2008.

ACTIVITIES AND BUSINESS REVIEW

This directors' report has been prepared in accordance with the special provisions relating to small companies under section 417(1) of the Companies Act 2006.

Activity

The principal activity of the Company continues to be the provision of credit finance by way of leasing.

Review of the year

The loss for the year was £70,000 (2007: loss of £139,000) and this was met from reserves. No dividend was paid during the year (2007: £nil).

Other matters

The directors, having made such enquiries as they considered appropriate, including regarding the continuing availability of sufficient resources from the Group, have prepared the financial statements on a going concern basis. They considered the financial statements of The Royal Bank of Scotland Group plc for the year ended 31 December 2008, approved on 25 February 2009, which were prepared on a going concern basis.

Although the Company traded at a loss it is expected to trade profitably in the future.

DIRECTORS AND SECRETARY

The present directors and secretary, who have served throughout the year except where noted below, are listed on page 1.

From 1 January 2008 to date the following changes have taken place:

Directors	Appointed	Resigned
P A Lynam		8 August 2008
A D Baldock	8 August 2008	
Secretary		
G Wraith-Carter		8 August 2008
L H Cameron	8 August 2008	

LOMBARD VENTURE FINANCE LIMITED

DIRECTORS' REPORT (Continued)

DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Acts 1985 and 2006 to prepare a directors' report and financial statements for each financial year and have elected to prepare them in accordance with International Financial Reporting Standards as adopted by the European Union. They are responsible for preparing financial statements that present fairly the financial position, financial performance and cash flows of the Company. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the directors' report and financial statements comply with the requirements of the Companies Acts 1985 and 2006. 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.

USE OF FINANCIAL INSTRUMENTS

The Company's financial risk management policies and exposure in relation to the respective risks are detailed in note 17 of the financial statements.

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the directors at the date of approval of this report confirms that:

- (a) so far as he is aware there is no relevant audit information of which the Company's auditors are unaware; and
- (b) the director has taken all the steps that he ought to have taken 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 and shall be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

DIRECTORS' INDEMNITIES

In terms of section 236 of the Companies Act 2006, Mr P A Lynam had been granted Qualifying Third Party Indemnity Provisions by The Royal Bank of Scotland Group plc.

LOMBARD VENTURE FINANCE LIMITED

DIRECTORS' REPORT (Continued)

AUDITORS

Deloitte LLP have expressed their willingness to continue in office as auditors.

Approved by the Board of Directors
and signed on behalf of the Board

A handwritten signature in black ink, appearing to read 'N Kapur', with a long horizontal stroke extending to the right.

N Kapur
Director

Date: 26 JUN 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LOMBARD VENTURE FINANCE LIMITED

We have audited the financial statements of Lombard Venture Finance Limited ('the Company') for the year ended 31 December 2008 which comprise the income statement, the statement of changes in equity, the balance sheet, the cash flow statement and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Directors' Report.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report for the above year 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 information outside the Directors' Report.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company, 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 LOMBARD VENTURE FINANCE LIMITED (Continued)

OPINION

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2008 and of its loss for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union;
- 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 LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
Date: 26/6/09

LOMBARD VENTURE FINANCE LIMITED

INCOME STATEMENT

for the year ended 31 December 2008

	Note	2008 <u>£'000</u>	2007 <u>£'000</u>
Continuing operations			
Revenue	4	27	42
Other operating income	5	7	4
Operating credit/(charges)	6	14	(15)
Operating profit		48	31
Finance costs	7	(148)	(235)
Loss before tax		(100)	(204)
Tax	8	30	65
Loss for the year attributable to the equity holders of the Company	16	(70)	(139)

The notes on pages 11 to 22 form a part of these financial statements.

LOMBARD VENTURE FINANCE LIMITED

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2008

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2007	-	(4,510)	(4,510)
Loss for the year	-	(139)	(139)
At 31 December 2007	<u>-</u>	<u>(4,649)</u>	<u>(4,649)</u>
At 1 January 2008	-	(4,649)	(4,649)
Loss for the year	-	(70)	(70)
Capital contribution	-	4,818	4,818
At 31 December 2008	<u>-</u>	<u>99</u>	<u>99</u>

The capital contribution arose from an intercompany loan that was waived.

The notes on pages 11 to 22 form a part of these financial statements.

LOMBARD VENTURE FINANCE LIMITED

BALANCE SHEET **at 31 December 2008**

	Note	2008 £'000	2007 £'000
Current assets			
Finance lease receivables	10	4	4
Loans and receivables	11	110	-
Trade and other receivables	12	-	6
Total assets		114	10
Current liabilities			
Amounts owed to group undertakings	13	15	4,641
Obligations under finance leases	14	-	18
Total liabilities		15	4,659
Net assets/(liabilities)		99	(4,649)
Equity			
Share capital	15	-	-
Reserves	16	99	(4,649)
Total equity/(deficit) attributable to the equity holders of the Company		99	(4,649)

The financial statements were approved by the board of directors and authorised for issue on 26 JUN 2009 and were signed on its behalf by:


N Kapur
Director

The notes on pages 11 to 22 form a part of these financial statements.

LOMBARD VENTURE FINANCE LIMITED

CASH FLOW STATEMENT

for the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Operating activities			
Loss before tax		(100)	(204)
<i>Adjustments for:</i>			
Finance costs	7	148	235
Operating profit before changes in working capital		<u>48</u>	<u>31</u>
Decrease in finance lease receivables		-	461
Decrease in trade and other receivables		6	7
(Decrease)/ increase in amounts owed to group undertakings		(4,706)	220
Net cash (used in)/generated from the operations		<u>(4,652)</u>	<u>719</u>
Interest paid		(85)	(137)
Net cash (used in)/from operating activities		<u>(4,737)</u>	<u>582</u>
 Net cash from investing activities		 <u>-</u>	 <u>-</u>
 Financing activities			
Repayment of finance lease liabilities	14	(18)	(484)
Capital contribution		4,818	-
Interest paid		(63)	(98)
Net cash from/(used in) financing activities		<u>4,737</u>	<u>(582)</u>
 Net increase in cash and cash equivalents		 -	 -
Cash and cash equivalents at 1 January		-	-
Cash and cash equivalents at 31 December		<u>-</u>	<u>-</u>

The notes on pages 11 to 22 form a part of these financial statements.

LOMBARD VENTURE FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2008

1 General information

Lombard Venture Finance Limited is a company incorporated in Great Britain under the Companies Act 1985. The address of the registered office is on page 1. The nature of the Company's principal activities are set out in the Directors' Report.

2 Adoption of new and revised Standards

In the current year the Company has not adopted any additional Standards as none have become effective for this reporting period.

Three Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current year. These are: IFRIC 11 *IFRS2 - Group and Treasury Share Transactions*, IFRIC 12 *Service Concession Arrangements* and IFRIC 14 *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The adoption of these has not led to any changes in the Company's accounting policies.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective: IFRS 8 *Operating Segments*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*, IFRIC 17 *Distributions of Non-cash Assets to Owners* and IFRIC 18 *Transfers of Assets from Customers*. 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.

3 Accounting policies

a. Accounting convention

The financial statements, which should be read in conjunction with the Directors' Report, are prepared on a going concern basis and in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together IFRS) as adopted by the European Union.

The financial statements have been prepared upon the basis of historical cost except as noted in the following accounting policies and are presented in accordance with applicable United Kingdom law.

b. Revenue recognition

Revenue from finance leases is recognised in accordance with the Company's policies on leases (see below).

Revenue arises in the United Kingdom from continuing activities

LOMBARD VENTURE FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) **for the year ended 31 December 2008**

3 Accounting policies (continued)

c. Taxation

Provision is made for taxation at current enacted rates on taxable profits, arising in income or in equity.

Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered.

d. Leases

Contracts to lease assets are classified as finance leases if they transfer substantially all the risks and rewards of ownership of the asset to the customer. Other contracts to lease assets are classified as operating leases.

Finance lease receivables are stated in the balance sheet at the amount of the net investment in the lease being the minimum lease payments and any unguaranteed residual value discounted at the interest rate implicit in the lease.

Unguaranteed residual values are subject to regular review to identify potential impairment. If there has been a reduction in the estimated unguaranteed residual value, the income allocation is revised and any reduction in respect of amounts accrued is recognised immediately.

Finance lease income is allocated to accounting periods so as to give a constant periodic rate of return before tax on the net investment.

e. Loans and receivables

Loans and receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

f. Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

LOMBARD VENTURE FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) **for the year ended 31 December 2008**

3 Accounting policies (continued)

g. Amounts owed to group undertakings

Amounts owed to group undertakings are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Finance costs incurred on borrowings from group undertakings are recognised in the income statement in the period in which they are incurred.

h. Obligations under finance leases

Assets held under finance leases are recognised as assets at the present value of the minimum lease payments determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

i. Other operating income

Other operating income is accounted for on an accruals basis.

j. Operating credits/(charges)

Operating credits/(charges) include provisions for bad and doubtful debts and other operating charges. Individually assessed provisions are made against advances for which recovery is considered to be doubtful. Collectively assessed provision is made in respect of losses which, although not separately identified, are from experience known to be present in any portfolio of financial assets. Other operating charges are accounted for on an accruals basis.

k. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies above, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements:

- Provisions for bad and doubtful debt
- Impairment of unguaranteed residual values

The Company's policy for provisions and impairment of unguaranteed residual values is noted above.

LOMBARD VENTURE FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) **for the year ended 31 December 2008**

4 Revenue

	2008	2007
	<u>£'000</u>	<u>£'000</u>
Finance lease income	19	41
Other revenue and fee income	<u>8</u>	<u>1</u>
	<u>27</u>	<u>42</u>

5 Other operating income

	2008	2007
	<u>£'000</u>	<u>£'000</u>
Commission receivable	<u>7</u>	<u>4</u>

6 Operating credit/(charges)

	2008	2007
	<u>£'000</u>	<u>£'000</u>
Bad debt credit/(charge)	22	(2)
Management fees	<u>(8)</u>	<u>(13)</u>
	<u>14</u>	<u>(15)</u>

The Company had no employees in the current year (2007 – none).

Employee costs are incurred by the immediate parent company, Lombard North Central plc, and allocated together with other overheads by way of a management charge to the Company.

7 Finance costs

	2008	2007
	<u>£'000</u>	<u>£'000</u>
On loans and payables:		
To group undertakings	85	137
Finance charges in respect of finance leases payable	<u>63</u>	<u>98</u>
	<u>148</u>	<u>235</u>

LOMBARD VENTURE FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2008

8 Tax credit on loss before tax

A) Analysis of credit for the year

	2008 <u>£'000</u>	2007 <u>£'000</u>
Current taxation:		
Income tax credit for the year	(30)	(55)
Under provision in respect of prior periods	-	(10)
Tax credit for the year	<u>(30)</u>	<u>(65)</u>

B) Factors affecting the tax credit for the year

The actual tax credit differs from the expected tax credit computed by applying the standard rate of UK corporation tax of 28.5% (2007: 30%) as follows:

	2008 <u>£'000</u>	2007 <u>£'000</u>
Expected tax credit	(29)	(61)
Non-deductible items	(1)	6
Adjustments in respect of prior periods	-	(10)
Actual tax credit	<u>(30)</u>	<u>(65)</u>

The applicable rate for the year has changed from 30% to 28.5% following a reduction in the rate of UK corporation tax from 30% to 28% on 1 April 2008.

9 Auditors' Remuneration

Fees payable to the Company's auditors for the audit of the Company's annual financial statements are £5,000 (2007: £5,000). There was no charge in either the current or prior year's financial statements for auditors' remuneration as the fees were charged in the financial statements of the immediate parent undertaking, Lombard North Central PLC.

LOMBARD VENTURE FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2008

10 Finance lease receivables

	Year in which receipt is expected			Total £'000
	Within 1 year £'000	Between 1 and 5 years £'000	After 5 years £'000	
2008				
Other balances	16	-	-	16
Present value	16	-	-	16
Provisions	(12)	-	-	(12)
Net carrying value	<u>4</u>	<u>-</u>	<u>-</u>	<u>4</u>
2007				
Future minimum lease payments	15	-	-	15
Unearned finance income	2	-	-	2
Other balances	8	-	-	8
Present value	25	-	-	25
Provisions	(21)	-	-	(21)
Net carrying value	<u>4</u>	<u>-</u>	<u>-</u>	<u>4</u>

The Company has not entered into any new business during the year.

The average effective interest rate in relation to finance lease agreements approximates 11% (2007: 8%).

The fair value of finance lease receivables is considered not to be materially different to the carrying amounts in the balance sheet.

There were no contingent rentals recognised as income in the year.

11 Loans and receivables

	2008 £'000	2007 £'000
Current		
Amounts owed by group undertakings	<u>110</u>	<u>-</u>

The directors of the Company have waived the right to charge interest on the amounts owed by group undertakings.

The fair value of loans and receivables is considered not to be materially different to the carrying amounts in the balance sheet.

LOMBARD VENTURE FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) **for the year ended 31 December 2008**

12 Trade and other receivables

	2008	2007
	<u>£'000</u>	<u>£'000</u>
Prepayments and accrued income	<u>-</u>	<u>6</u>

13 Amounts owed to group undertakings

	2008	2007
	<u>£'000</u>	<u>£'000</u>
Current liabilities		
Amounts due within 1 year	<u>15</u>	<u>4,641</u>

The fair value of amounts owed to group undertakings is considered not to be materially different to the carrying amounts in the balance sheet.

The average effective interest rate over this loan approximates 5%.

As at 31 December 2007, the directors of the immediate parent company had waived the right to charge interest on £2,050,000 of the amounts due. The average effective interest rate over the remaining amounts approximated 6%.

14 Finance lease obligations

	Year in which payment is expected			
	Within 1	Between	After	
	year	1 and 5	5 years	Total
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
2008				
Net carrying value	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
2007				
Future minimum lease payments	<u>18</u>	<u>-</u>	<u>-</u>	<u>18</u>
Net carrying value	<u>18</u>	<u>-</u>	<u>-</u>	<u>18</u>

The Company has not entered into any new business during the year.

The average effective interest rate in relation to finance lease agreements approximated 8%.

The fair value of finance lease receivables is considered not to be materially different to the carrying amounts in the balance sheet.

There were no contingent rentals recognised as income in the year.

LOMBARD VENTURE FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) **for the year ended 31 December 2008**

15 Share capital

	2008 £	2007 £
Authorised:		
1,000 (2007: 1,000) ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted, called up and fully paid:		
100 (2007: 100) ordinary shares of £1 each	<u>100</u>	<u>100</u>

16 Reserves

	Retained earnings £'000
At 1 January 2007	(4,510)
Loss for the year	(139)
At 31 December 2007	<u>(4,649)</u>
At 1 January 2008	(4,649)
Loss for the year	(70)
Capital contribution	4,818
At 31 December 2008	<u>99</u>

The capital contribution arose from an intercompany loan that was waived.

17 Financial instruments and risk management

Capital risk management

The Company considers its capital to consist of equity attributable to the equity holders of the Company, comprising issued share capital and retained earnings as disclosed in notes 15 and 16. The Company is a member of the Royal Bank of Scotland group of companies which has regulatory disciplines over the use of its capital. The Company operates controls and policies put in place by the group to ensure that the Company can continue as a going concern and to ensure that the group complies with these regulatory disciplines.

Accounting Policies

Details of the accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 3.

LOMBARD VENTURE FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2008

17 Financial instruments and risk management (continued)

Categories of financial instruments

The carrying value of each category of financial instruments, as defined in IAS 39, is disclosed in the following table:

	2008 <u>£'000</u>	2007 <u>£'000</u>
Financial assets:		
Loans and receivables	114	4
Non financial assets	-	6
	<u>114</u>	<u>10</u>
Financial liabilities:		
Amortised cost	<u>15</u>	<u>4,659</u>

Risk management

The Company uses a comprehensive framework for managing risks established by the Lombard group of companies and the Royal Bank of Scotland group of companies.

The risks associated with the Company's businesses are as follows:

Interest rate risk and sensitivity analysis

Structural interest rate risk arises where assets and liabilities have different repricing maturities.

Finance lease receivables may be based on fixed and/or floating interest rates. These are funded primarily through balances owed to group undertakings which are due primarily on demand and on a variable interest rate basis. The repricing maturity profile of the financial assets of the Company may be different to that of the associated borrowings and hence give potential exposure to interest rate risk.

The matching of the repricing maturity characteristics of the Company's assets and liabilities is achieved through hedges transacted within another group company. This results in the Company having exposure to interest rate risk, though this would be offset elsewhere within the group.

The sensitivity analysis below has been determined based on the exposure to interest rates at the balance sheet date. The analysis is prepared on the assumption that the balances receivable and/or payable at the balance sheet date were receivable and/or payable for the whole year.

If interest rates had been 0.5% higher and all other variables were held constant, the Company's loss for the year would not have been materially impacted (2007: loss for the year would have increased by £13,000). This is mainly due to the Company's exposure to interest rates on its variable rate borrowings. There would be no other material impact on equity.

Currency risk

The Company has no currency risk as all transactions and balances are denominated in Sterling.

LOMBARD VENTURE FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2008

17 Financial instruments and risk management (continued)

Credit risk

Credit risk is the risk that companies, financial institutions, individuals and other counterparties will be unable to meet their obligations to the Company. Credit risk arises principally from the Company's lending activities.

Analysis of credit quality by credit rating:

The following tables provide an analysis of the credit quality of the Company's financial assets at the balance sheet date:

	Analysis of credit quality by quality grade			Accruing past due	Non accrual	Less: Impair- ment provision	Total
	AQ1 to 3	AQ4	AQ5				
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2008							
Finance lease receivables	-	-	-	-	16	(12)	4
Loans and receivables	110	-	-	-	-	-	110
	110	-	-	-	16	(12)	114
2007							
Finance lease receivables	-	-	-	3	22	(21)	4

The analysis of credit quality by quality grade represents the maximum exposure to credit risk excluding past due and non accrual. Assets are graded according to the following:

Asset quality grade	probability of default (PD)
AQ1	≤0.2%
AQ2	>0.2% and ≤0.6%
AQ3	>0.6% and ≤1.5%
AQ4	>1.5% and ≤5%
AQ5	>5%

Analysis of assets accruing past due

The following assets were past due at the balance sheet date but not considered impaired:

	Past due:	1-29 days	30-59 days	60-89 days	more than 90 days	Total
		£'000	£'000	£'000	£'000	£'000
2007						
Finance lease receivables		1	1	1	-	3

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

LOMBARD VENTURE FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2008

17 Financial instruments and risk management (continued)

Liquidity risk

Liquidity risk arises where assets and liabilities have different contractual maturities. The Company manages liquidity risk through applying the established framework put in place within the group.

The maturity analysis of financial liabilities is disclosed in notes 13 and 14.

The Company has no significant liquidity risk as it has access to financing facilities and support provided by fellow group companies.

Operational risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud or inadequate internal financial controls and procedures. The Company manages this risk, in line with the RBS group framework, through systems and procedures to monitor transactions and positions, the documentation of transactions and periodic review by internal audit. The Company also maintains contingency facilities to support operations in the event of disasters.

18 Related parties

The Company's immediate parent and ultimate controlling party is described in note 21.

The table below details balances and transactions with group undertakings.

	At 1 January 2008 <u>£'000</u>	Net payments <u>£'000</u>	Net interest paid <u>£'000</u>	At 31 December 2008 <u>£'000</u>
Banking members of the groups:				
Immediate parent	(2,591)	2,661	(85)	(15)
Other, non-banking members of the group:				
Other RBS Group undertakings	(2,050)	2,160	-	110
Total	<u>(4,641)</u>	<u>4,821</u>	<u>(85)</u>	<u>95</u>

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

LOMBARD VENTURE FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 December 2008

18 Related parties (continued)

Other related party transactions

Expenses of £8,000 (2007: £13,000) were paid by other members of the group and then recharged to the Company by way of management charges.

No emoluments were paid to any director by the Company during the year (2007 - £nil).

None of the directors had any material interest in any contract of significance in relation to the business of the Company (2007 - none).

19 Contingent liabilities

The Royal Bank of Scotland group has agreed to compensate UK members for any adjustments in respect of UK:UK Transfer Pricing that may arise under paragraph 1A of Schedule 28 AA, Income and Corporation Taxes Act 1988.

20 Post balance sheet events

There have been no significant events between the year end and the approval of these financial statements which would require a change to the disclosures in the accounts.

21 Parent companies

The Company's immediate parent company is Lombard North Central PLC.

The ultimate holding company and the parent of the largest group into which the Company is consolidated is The Royal Bank of Scotland Group plc which is incorporated in Great Britain and registered in Scotland. Copies of the financial statements for The Royal Bank of Scotland Group plc can be obtained from The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ.

The smallest subgroup into which the Company is consolidated has as its parent company The Royal Bank of Scotland plc, a company incorporated in Great Britain and registered in Scotland. Copies of the consolidated financial statements for this subgroup can be obtained from The Royal Bank of Scotland Group plc, Gogarburn, Edinburgh, EH12 1HQ.

On 1 December 2008, the UK Government through HM Treasury acquired a controlling shareholding in The Royal Bank of Scotland Group plc. The UK Government has announced that its shareholdings in banks will be managed by UK Financial Investments Limited, a company wholly-owned by the UK Government.